



Mafube Local Municipality: Compilation of 2011/12 Annual Financial Statements and resolution of audit queries

Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
2	Accumulated surplus and reserves							
2.1	Perform a detail analysis of accumulated surplus. Updating of evenus with year end (2011) auditors journals to agree the opening balances of evenus to the AFS.	Ex.108, Ex.147 Ex.86 Ex.229	Gift Gaya / Regina Mayer	Mmuso	Discussions with management and inspection of CaseWare journals	<p>A significant amount of journals were processed on case ware but the even us system was not adjusted to agree to the AFS.</p> <p>Gift indicated that the opening balances on even us are not yet rolled forward from the 2010/11 financial year and therefore we can still process journals to the prior year to align the 2011/12 year opening balances with the prior year AFS.</p> <p>We obtained the list of auditor journals for the 2010/11 year from management, this is filed on the Mafube hard copy file. Note that the list only contain one leg of the journal.</p> <p>If more detail is needed, we need inspect the system. The case ware journals is available on the case ware file.</p>	<p>Together with management assistance, inspect the even us system and confirm which of the case ware journals were processed on the system and which not. (this can be done by comparing the case ware journals with either the list of auditor journals or to the GL itself)</p> <p>Ensure that all auditors journals that were not yet processed are processed in the previous financial year.</p> <p>Perform a comparison between the case ware (AFS) amounts and the even us system to ensure that all journals are processed and the opening balances of the even us system is updated accordingly to agree to the AFS.</p> <p>(Note that we need to individually consider if the reclassification journals relating to the split of long term and short term portions should be processed on the system)</p> <p>KPMG to inform Mafube management as soon as all the necessary 2010/11 auditors journals are processed on even us so that the balances can be rolled forward to 2011/12 financial year.</p> <p>It is also important to take into consideration that for a significant amount of these journals no support is in place. We will then together with looking at the prior year queries identify what the balances should be and process additional journals, if necessary, to agree the balances to the</p>	18-Apr-12
2.2	Prior period corrections Journals and supporting documentation for all prior period corrections, changes in accounting policy and any other movements.	Ex.108 Ex.147 Ex.86 Ex.229, Ex.222	Gift Gaya / Regina Mayer	Mmuso	Discussions with management	Management indicated that there are no supporting documentation in place for these journals.	<p>The system will be adjusted with the journals to ensure that the system agrees with the AFS as indicated in the procedure above.</p> <p>We will then together with looking at the prior year queries identify what the balances should be and process additional journals, if necessary, to agree the balances to the supporting documentation. Supporting documentation should be in place to support the journals and end balances.</p> <p>Any prior year adjustments should be properly disclosed in the AFS under Prior period error note. Refer to the AFS disclosure section.</p>	N/A, incorporated in other procedures in the action plan.
2.3	Roll forward of opening balances		Gift Gaya / BCX consultants	N/A	Discussions with management	Gift indicated that the opening balances are not yet rolled forward from the 2010/11 financial year	<p>It management responsibility together with BCX to ensure that the 2010/11 closing balances are rolled forward to the 2011/12 opening balances.</p> <p>(Note that this should only be done after all the case ware journals not yet processed on the system are processed)</p> <p>KPMG to follow up with management on the progress.</p>	25-Apr-12
2.4	Year end reconciliation of opening and closing balances for all reserve balances	EX.105 Ex.69	Gift Gaya	Mmuso	Discussions with management and inspection of the Audit support file.	No reconciliations were performed to date	<p>Assist management in performing a reconciliation on all opening and closing balances of accumulated surplus and reserves.</p> <p>Supporting documentation for all movements in reserves should be in place and where correction of errors occur, this should be disclosed properly.</p>	31-Jul-12
	Total hours							



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3	Long-term liabilities and leases							
3.1	Lease register		Linda Tsahablala / Gift Gaya	Palesa	Discussions with management, inspection of the prior year AFS and support file	<p>There is no lease register.</p> <p>Management indicated that they only have operating leases.</p> <p>In the prior year AFS there are only operating leases.</p> <p>The following leases were identified through discussion with management:</p> <ul style="list-style-type: none"> - Photo copy machines from Maltitac (Gestetner) (lessee) - Electronic vending machines from Contour technologies (lessee) - Plots of land rented out to community members for their cattle (lessor) - Townhouses in Tweeling (lessor) <p>Linda indicated that they have appointed BHR solutions in the place of Maltitac to do the leasing in the future. The appointment letter was received and filed in the hard copy file, but the agreement has not been obtained during the assessment phase.</p> <p>The following contracts have been obtained:</p> <ol style="list-style-type: none"> 1. Gestetner lease contract as well as the detail on the maintenance on the machines. 2. Four lease contracts for the plots of land. <p>All these contracts are filed in the hard copy file under leases.</p>	<p>Assist management in compiling a lease register for the 2010/11 and 2011/12 financial periods.</p> <p>Follow up with management on the availability of the lease contracts not yet obtained and emphasise the importance of obtaining these contracts.</p> <p>Request from management the contract of BHR solutions. Inspect the appointment letter to identify possible commitments etc and communicate this to the KPMG individual responsible for commitments to ensure that it is properly disclosed in the AFS if applicable.</p>	25-Apr-12



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3.1	<p>Completeness, Existence and Classification of loans</p> <p>(i) Obtain loans register from management. Review the register and ensure the following is recorded in the Loan Register:</p> <ul style="list-style-type: none"> - Financial institution - Start date, loan term, maturity date, interest rate (fixed or linked to prime rate). - Cross references to underlying assets financed per the Fixed Assets Register. - reconcile the totals per the loans register to corresponding balances per the trial balance. - Follow-up on differences and propose adjusting entries - ensure management signs and dates reconciliation as evidence of review <p>(ii) Obtain loan agreements and amortisation schedules supporting each loan and review.</p> <p>(iii) Obtain external loan confirmations in respect of outstanding balances at 30 June 2012.</p> <p>(iv) record both short and long term components of loan liabilities</p>		Gift Gwanya	Palesa	Reviewed management letter and prior year loans register. Obtained & reviewed revised loan agreement	<p>a) Obtained prior year loans register. Per discussion with management the loans register for 2012 has not yet been prepared. Revised contract with DBSA received and filed.</p> <p>b) We confirmed with management that no payment has been made during the year to the DBSA. No additional loans were taken out by management and DBSA is the only outstanding loan.</p>	<p>a) KPMG to provide management with a template for loans register</p> <p>b) Loans register to be populated for the 2012 financial year by Mafube management and provided to KPMG during implementation for review to ensure accuracy and completeness.</p> <p>c) Obtain confirmation of the balances as at 30 June 2011, & 30 June 2012, plus future statement from the financial institution</p> <p>d) We reviewed the loan contract and discussed with management to verify if the terms of the loans payable recognised at the end of the reporting period have been defaulted on. There is a default therefore we need to ensure that the municipality discloses the following on the AFS to ensure compliance with IFRS 7:</p> <p>(i) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;</p> <p>(ii) the carrying amount of the loans payable in default at the end of the reporting period; and</p> <p>(iii) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.</p> <p>We will have further follow up discussions at implementation to enquire if, during the period, there were breaches of loan agreement terms other than those described in the preceding paragraph, and we will ensure the municipality discloses the same information as required by paragraph 18 of IFRS 7 if the breaches permitted the lender to demand accelerated repayment (unless the</p>	06/07/2012



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3.2	<p>Lease classification</p> <p>(i) Determine if management documented (SOP) the process to be followed in classifying leases as finance or operating leases. Assess if the SOP is sufficient to ensure the correct classification of leases. Make recommendations for management's consideration.</p> <p>(ii) Management to obtain copies of the lease contracts. The KPMG team will assist management to check if leases are correctly classified as finance or operating leases and that it is documented for audit purposes.</p> <p>(iii) Consider these lease agreements with reference to the criteria for onerous contracts.</p> <p>(iv) Determine, in discussion with management, if full maintenance leases have been concluded with service providers and assist management with the correct accounting treatment thereof.</p> <p>(v) Determine if land, where applicable, is classified as an operating lease unless title</p>	Ex.159 Ex.207	Linda Tsahablala / Gift Gaya	Palesa	Discussion with management and inspection of the prior year support file.	<p>Management do not have a procedures in place to determine the classification of leases.</p> <p>Management did indicate that there is currently a dispute on the treatment of a building in Tweeling and Cornelia whereby the AG wants to account for the building as investment property. The nature of the lease is small buildings that were originally rented out to old age people, but now is rented out to anyone. We requested the contracts from management, but they indicated that these contracts are at Tweeling and Cornelia municipalities.</p> <p>Refer above for lease contracts obtained during the assessment phase.</p> <p>Gift indicated that they will follow up with Bevin (PMU consultant) on the deemed leases.</p>	<p>(i) Provide guidance to management to ensure the correct classification of leases.</p> <p>(ii) Management to obtain copies of the lease contracts. The KPMG team will assist management to check if leases are correctly classified as finance or operating leases and that it is documented for audit purposes.</p> <p>(iii) Have detailed discussions with management and inspect the contract on the buildings in Tweeling and Cornelia and confirm if these buildings should be classified as investment property or not. This should be adjusted accordingly in the financial system, if applicable.</p> <p>(iv) Request Council to condone all existing lease agreements that were not approved by Council in the past.</p> <p>(v) Inspect the Gestetner lease contract and assist management with the correct accounting treatment of maintenance leases.</p> <p>(vi) Follow up with Gift if there are any deemed leases and assist management with the correct accounting treatment thereof.</p> <p>(vii) Consider these lease agreements with reference to the criteria for onerous contracts.</p>	26-Apr-12
3.3	<p>Completeness of leases</p> <p>(iv) Inspect the monthly debit order list and in discussion with management determine if there are any other operating or finance leases that should be recognised in addition to those identified.</p> <p>(v) Reconcile cash payments made per the various lease agreements to the cash books. Investigate differences as they may be an indication of additional leases not yet</p>	Ex.169	Gift Gaya	Palesa	N/A - this will be done during the implementation phase	N/A	<p>(i) Confirm completeness of leases by inspecting the debit order schedule and the cash book ensuring that the total of lease payments per the debit order list agree to the lease expenses per the leases working paper.</p> <p>(ii) The debit order schedule should further be scrutinized to identify any other payments that are being made with regard to lease contracts that has expired (i.e. to identify potential onerous lease contracts)</p>	29-Jun-12



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3.4	<p>Finance leases, if applicable:</p> <p>(i) Obtain & review the finance lease schedule and confirm finance lease payments are correctly apportioned between finance charges and capital repayments (reduction in the finance lease liability).</p> <p>(ii) Recalculate the present value of all finance lease liabilities based on the contractual terms per the respective lease agreements e.g. interest rate, repayment terms etc.</p> <p>(iii) Process, to the extent necessary, prior period adjustments and restate comparative balances.</p> <p>(iv) Management to obtain confirmation of outstanding balances, interest rates applicable, remaining lease period, instalment amounts from the financial institutions. (lease certificates).</p>		Linda Tsahablala / Gift Gaya	Palesa	Discussion with management and inspection of the prior year support file.	Management indicated that they do not think they have any finance leases, only operating leases. In the prior year AFS there are only operating leases.	<p>Specific attention should be given to the leasing of office machinery, which may be a finance lease.</p> <p>(i) If any leases should be classified as finance leases, identified through procedure above, ensure that all finance lease assets is included in a separate section of the fixed asset register and should be disclosed as finance lease assets in the AFS.</p> <p>(ii) Ensure that lease calculations are performed for all the leases and if not assist management in performing the calculations. (Amortisation schedules for all finance lease agreements)</p> <p>(iii) Process, to the extent necessary, prior period adjustments and restate comparative balances.</p> <p>(ii) Documentation required of all leases that supports disclosure in financial statements.</p> <p>(iv) Management to obtain confirmation of outstanding balances, interest rates applicable, remaining lease period, instalment amounts from the financial institutions. (lease certificates).</p>	29-Jun-12
3.5	<p>Straight lining of operating leases - fixed escalations</p> <p>(i) Determine, by scrutinising a representative sample of lease contracts, if operating leases contain a fixed annual escalation clause.</p> <p>(ii) If the answer is in the affirmative, assist management to prepare a schedule to straight line such leases over the lease term. This will result in either an operating lease liability or operating lease asset.</p>		Linda Tsahablala / Gift Gaya	Palesa	Discussion with management and inspection of the prior year support file	Calculations have been prepared and included as part of the 2011 AFS support file under the journals section. The accuracy and completeness of these calculations is uncertain.	<p>The following should be done for both the 2010/11 and 2011/12 financial year:</p> <p>Inspect calculations done by previous consultants and update the calculations where necessary by agreeing these calculations to the different lease contracts for accuracy</p> <p>Completeness will be confirmed as detailed above.</p> <p>Ensure that lease calculations are performed for all the leases and if not assist management in performing the calculations.</p> <p>This will include:</p> <p>(i) Calculations of straight-lining of operating leases as lessee</p> <p>(ii) Calculations of straight-lining of operating leases as lessor</p> <p>(iii) Possible accounting for leases as investment property</p> <p>(iv) Documentation required of all leases that supports disclosure in financial statements.</p> <p>Ensure that the correct amounts are reflected in the Trial balance.</p>	29-Jun-12



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3.6	Additional AFS disclosures on leases. Perform the necessary calculations to support lease disclosures in compliance with GRAP requirements.		Linda Tsahablala / Gift Gaya	Palesa	Inspection of the prior year AFS	This was not properly disclosed in the 2010/11 financial period.	For both the 2010/11 and 2011/12 financial years, prepare a schedule in support of the following disclosure information in the AFS: (i) Minimum lease payments due per the following categories: - Less than one year - Between one and five years - More than five years - Total minimum lease payments due (ii) Provide a description of the classes of assets to which the operating lease agreements apply.	04-Jul-12
3.7	Post retirement benefit valuation (i) Obtain actuarial valuation report for post retirement medical benefit and long service bonus. Review for completeness and accuracy according to the applicable accounting standard. (ii) Discuss with management and obtain information necessary to perform the actuarial valuation on long service bonus. (iii) In terms of post-retirement medical aid benefits disclose: - Number of years in-service members (employees) - Continuation members (retirees, widowers and orphans) - Estimate the liability i.r.o past service cost distinguishing between in-service members and continuation members (iv) Review accounting policy to ensure appropriateness (v) Escalate challenges encountered to management to take corrective action.		Bongani Sigasa	Palesa	Obtained the post employment medical aid fund actuarial valuation as at 30 June 2010 and 30 June 2011. Reviewed prior accounting policy	(i) Prior years valuations of post medical aid valuation excludes long service bonus. (ii) There is no actuarial valuation for the current year	Obtain a list of all the necessary requirements for the valuation from KPMG actuarial valuator and obtain the same from management. (i.e. list of defined benefit plans & their rules, list of medical aids, list of retired employees, confirmation on whether municipality does pay medical aid for retired employees etc) Prepare working paper supporting amounts disclosed in the 2011/12 AFS. In performing the actuarial valuation, the following tasks will be executed by the evaluator: • The provided scheme data will need to be assessed for reasonability in accuracy, relevance and completeness in accordance with the scheme rules. This analysis will perform credibility and completeness checking and homogenous groupings. • A determination of suitable bases by demographic assumption setting and financial assumption setting including inflation. • The Project Unit Method will be used in valuation calculation for: accrued liability determination, future/projected liability determination, service cost and interest cost determination and sensitivity analysis. • The advantages and disadvantages of applying the corridor principle will be discussed with management. Based on Mafube management's decision, the accounting policy in respect of Employee Benefits will be updated accordingly. • The valuation results will be input onto a spreadsheet specifying the recommended balance sheet entries, income statement entries and disclosures	20/07/2012
	Total hours							
4	Trade and other payables							



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4.1	<p>Completeness and accuracy of accounts payable</p> <p>(i) Obtain a trade creditors listing from management for the 2010/11 and 2011/12 financial period.</p> <p>(ii) Compare the 2010/11 and 2011/12 trade creditors listing balance to the trade creditors balance disclose in the 2010/11 and 2011/12 AFS.</p> <p>(iii) Obtain supporting documentation i.e. suppliers invoices to support 2020/11 and the 2011/12 creditors listing.</p> <p>Perform the following additional procedures to promote completeness and accuracy of the Accounts Payable balances:</p> <p>(i) Discussions with management to identify material suppliers/ service providers that Mafube still need to pay</p> <p>(ii) Preparation of creditor reconciliations for major suppliers.</p>	72,139,160	Gift	May-Mari	Discussed with management, and inspected the 2010/11 creditors listing, AFS and Management letter to identify if the 2010/11 trade creditors register agrees to the 2010/11 AFS and if sufficient supporting documentation i.e. suppliers invoices/ statements exists, supporting this balance.	<p>2010/11 Creditors listing did not agree to the AFS.</p> <p>Management advised that sufficient supporting documentation i.e. Suppliers statement are available to support the listing.</p> <p>The 2010/11 AFS need to be adjusted accordingly to address this finding.</p>	<p>Propose journals to restate "Accounts Payable" at 30 June 11 for management's consideration and approval.</p> <p>Compile a complete creditors listing at 30 June 2012 supported by suppliers statements/ invoices reconciliations.</p> <p>Scrutinise through the subsequent to year end bank statement identify payments relating to pre year end expenses and account for this accordingly.</p>	27-Jul-12
4.2	Identify stale cheques and propose journal entries to reverse stale cheques to accounts payable (creditors) for management's consideration and approval.		Pienky, Mananki	May-Mari	Refer to section on Cash and Cash Equivalents	Refer to section on Cash and Cash Equivalents	Refer to section on Cash and Cash Equivalents	15-Jun-12
4.3	Perform creditors age analysis by using the relevant details per the Excel analysis for the period 2010/11 as well as 2011/12.	144	Gift	May-Mari	Discussed with management and inspected the 2010/11 creditors listing, AFS and Management letter to identify if a creditors age analysis was prepared and disclosed.	No creditors age analysis was prepared by management, thus finding no disclosure thereof in the AFS.	Calculate and disclose the creditors age analysis accordingly in the 2010/11 and 2011/12 AFS.	27-Jul-12
4.4	<p>Surety & retention creditors</p> <p>Compile a list of surety creditors from the contract system (or MIG register) and reconcile with the GL.</p> <p>Compile a list of retention creditors from the contract system (MIG register) and reconcile with the GL.</p>		Gift	May-Mari	Inspected the 2010/11 AFS to verify if surety/ retention creditors were accounted for by Mafube.	<p>No surety/ retention creditors were recognised per the 2010/11 AFS.</p> <p>The MIG Register for the 2010/11 and 2011/12 financial years did not reflect any details pertaining to surety/ retentions.</p>	<p>Compile a list of surety/ retention creditors at the 1 July 2010, 30 Jun 11 and 30 Jun 12 respectively.</p> <p>Recognise surety/ retention creditors for the 2010/11 financial year by restating comparative amounts per the 2011/12 AFS.</p>	15-Jun-12



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4.5	<p>Discounting of trade payables</p> <p>Consider if it is necessary to discount trade payables by calculating:</p> <p>(i) The average number of days that trade payables are outstanding. Compare this to the normal credit period of 30 days.</p> <p>(ii) The interest payable at the prime overdraft rate on amounts outstanding for longer than 30 days. Compare this to interest charged on late payments. If the calculated interest amount is materially higher than the actual interest paid, calculate if discounting of trade payables is material.</p> <p>(iii) If discounting is regarded as material, draft the necessary journals entries for management's review and approval.</p>		Gift	May-Mari	Discussion with management, inspection of the 2010/11 AFS and Management letter to identify if trade creditors were discounted.	No trade payables discounting calculation were prepared or disclosed in the 2010/11 AFS.	Calculate and disclose (if material) the discounting of Trade creditors accordingly in the 2010/11 and the 2011/12 AFS.	27-Jul-12
	Total hours							
5	Provisions							
5.1	<p>Provisions</p> <p>(i) Obtain/ compile a schedule of provisions for the 2010/11 and 2011/12 financial periods from management with supporting documentation, reflecting the following information:</p> <ul style="list-style-type: none"> - Balance at the beginning of the year - Provisions made during the year - Provisions reversed/ utilised - Balance at the end of the period <p>(ii) Check that only items that meet the definition of a provision are classified as such.</p>		Gift	Mmuso	Discussed with management and inspected the 2010/11 AFS and Management letter to identify if a schedule of provisions containing the required information per the activity exist, and how it was accounted for.	The only provision listed per the 2010/11 AFS is the staff leave and bonus provisions. Please refer to the employee benefits section for findings and issues encountered.	<p>Please refer to the employee benefits section for the proposed solution on staff leave and bonus provisions.</p> <p>Discuss with management possible provisions that may exist in addition to the rehabilitation provision.</p> <p>Prepare a working paper to support GRAP compliant disclosure of provisions in the 2011/12 AFS.</p>	27-Jul-12



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5.1	Contingent liabilities Determine status of contingent liabilities per the 2010/11 and 2011/12 annual financial statements and any additions thereto and update the disclosure schedule accordingly.	Ex.153	Soul Malendi	Mmuso	Inspection of the prior year AFS	<p>We were unable to meet with the compliance manager during the assessment phase.</p> <p>Per inspection of the prior year AFS we identified that there were 2 contingent liabilities namely:</p> <ol style="list-style-type: none"> 1. Terminating a lease agreement with Gestetner (refer to leases section for more detail on the new service provider to be used) 2. Previous MM is being charged with contempt of court. 	<p>Request management to compile a list of all Names and contact details of legal representatives in order to obtain legal confirmations</p> <p>Assist management to obtain confirmation from attorneys with regards to possible and probable losses that existed at year ended 30 June 2011 and 30 June 2012 by the municipality or against the municipality. Check that legal cases are appropriately classified and accounted for as:</p> <ul style="list-style-type: none"> (a) Provisions (b) Contingent liability, i.e. only disclosure information to be provided (c) No action required, i.e. no disclosure in the AFS required. <p>Any material litigation instituted against the Mafube after year end should also be considered from an accounting and/ or disclosure perspective as an event after the reporting date.</p> <p>Assess the status of the prior year contingent liabilities and update the disclosure schedule accordingly.</p> <p>Obtain supporting documentation for all contingent liabilities.</p> <p>Obtain external confirmation from Mafube's bank to confirm if any guarantees is provided by the municipality to employees to settle outstanding debts</p>	20-Jul-12
5.2	Value the rehabilitation sites at Mafube Local Municipality. Disclose the rehabilitation provision accordingly in the 2010/11 and the 2011/2012 AFS.	149	Gift	Mmuso	Discussed with management, inspected the 2010/11 AFS and Management letter to identify if a rehabilitation provision was raised accordingly.	<p>No recognition of landfill sites and no measurement there of was done by an independent valuer.</p> <p>No reconciliation was performed between the list of landfill sites and the value there off to the GL and the FAR.</p>	<p>Recognise landfill sites and measure them using the valuers value.</p> <p>Reconcile the list of landfill sites and the value there off to the GL and the FAR.</p>	15-Jun-12
	Total hours							
6	Grants and grant revenue							



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6.1	<p>Grant registers</p> <p>(i) End-of-year grant return reconciled - work in progress statements where applicable (<i>The Auditor-General must comment on the performance of the municipality with regards to spending and measurable outcomes achieved on the DoRA allocations</i>)</p> <p>(ii) Review grant registers compiled by management. The grant registers should reflect the following information: - Opening balances per grant - Grants received during the financial year - Grants utilised during the year - Unspent conditional grants at year-end.</p> <p>(iii) Compilation of a Grant Registers (Income from Grantors & utilisation of grant monies - refer Grants Register template)</p> <p>(iv) Review the MIG Register for 2011/12 as updated by Mafube management.</p> <p>(v) Use the MIG Registers for</p>	109, 193	Gift	Mmuso	<p>Discussed with management and reviewed the grant register file compiled by management to confirm that the grant registers reflect the following information: - Opening balances per grant - Grants received during the financial year - Grants utilised during the year - Unspent conditional grants at year-end.</p>	<p>Identified an equitable share and four grant registers i.e. FMG, MSIG, MIG and an electricity grant.</p> <p>The MSIG and the FMG registers needs to be compiled and supporting documentation identified for the 2010/11 and 2011/12 financial years.</p> <p>The MIG grant register needs to be updated up to the 2011/12 financial year end.</p> <p>Management confirmed that the MIG register for the 2008/09, 2009/10, 2010/11 and 2011/12 financial years will be available to identify additions to infrastructure assets during the respective years.</p> <p>Management indicated a lack of supporting documentation for the MIG claims.</p> <p>Management confirmed that the grants received per the bank statement agreed to the DoRA allocation.</p>	<p>Compile accurate and complete grant registers that reflects the following information: - Opening balances per grant - Grants received during the financial year - Grants utilised during the year - Unspent conditional grants at year-end.</p> <p>Use the MIG Registers for 2008/09, 2009/10, 2010/11 and 2011/12 to identify additions to infrastructure assets during the respective years.</p> <p>Reconcile the movements in respect of the individual MIG contracts for 2010/2011 and 2011/12 to the work in progress statements.</p>	27-Jul-12
6.2	<p>Government grant: Equitable share</p> <p>Prepare a schedule (grants register) in respect of the equitable share indicating: (i) Amount allocated to the municipality per the DORA for the current year (ii) Obtain correspondence from CFO relating to equitable share allocations & payments (iii) Amounts received (date & bank statement #) (iv) Full amount of equitable share to be recognised as revenue</p>		Gift	Mmuso	<p>Discussed with management and inspected the grant register file to identify if that a schedule (grants register) in respect of the equitable share was compiled, indicating: (i) Amount allocated to the municipality per the DORA for the current year; (ii) Correspondence from CFO relating to equitable share allocations & payments; (iii) Amounts received (date & bank statement #); and (iv) Full amount of equitable share to be recognised as revenue.</p>	<p>Mafube management advised that the required information is available, but a schedule still needs to be prepared in respect of the equitable shares, indicating: (i) Amount allocated to the municipality per the DORA for the current year; (ii) Correspondence from CFO relating to equitable share allocations & payments. (iii) Amounts received (date & bank statement #); (iv) Full amount of equitable share to be recognised as revenue</p>	<p>Compile a schedule (grants register) in respect of the equitable share indicating: (i) Amount allocated to the municipality per the DORA for the current year (ii) Correspondence from CFO relating to equitable share allocations & payments. Reconcile the difference per the DoRA and the bank statements. (iii) Amounts received (date & bank statement #) (iv) Full amount of equitable share to be recognised as revenue</p>	27-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
6.3	<p>Government grants: Revenue recognition</p> <p>Confirm that Revenue from Non-exchange Transactions are recognised in accordance with GRAP 23 to account for government grants and equitable share allocations received by a municipality. If not, apply the principles of GRAP 23 to account for Government Grants, i.e. Government Grants should be accounted for using the "assets and liabilities" approach. Reference will be made to the MIG and other Grants Registers.</p> <p>Draft/ review of an accounting policy for government grants for acceptance/ implementation by management</p>	109	Gift	Mmuso	Inspected the 2010/2011 AFS to confirm that Revenue from Non-exchange Transactions are recognised in accordance with GRAP 23 to account for government grants and equitable share allocations received by a municipality.	<p>Mafube adopted GRAP 23: Revenue from Non-exchange transactions in the 2010/2011 financial year.</p> <p>A GAP analyses needs to be performed to confirm the compliance of GRAP 23: Revenue from Non-exchange Transactions.</p> <p>The accounting policy needs to be inspected and revised if necessary.</p>	<p>Perform a GAP analysis of grant revenue/ expenditure and the accounting thereof to confirm the compliance of GRAP 23: Revenue from Non-exchange transactions.</p> <p>Where gaps are identified, suggest and implement the disclosures regarding GRAP 23.</p>	15-Jun-12
	Total hours							
7	VAT and other current liabilities							
7.1	<p>VAT Reconciliation</p> <p>(i) Perform a VAT reconciliation, listing amounts paid to and refunds due from SARS for the 2011/12 financial year.</p> <p>(ii) Place copies of the VAT returns and supporting calculations on file.</p> <p>(iii) Review the controls in place for the preparation of VAT returns and for the submission thereof.</p>	60	Gift	Palesa	Discussed with management and inspected the 2010/11 AFS and management letter to determine if VAT reconciliations are performed.	<p>Per inspected of the 2010/11 management report it was identified that no controls were in place for the preparation and the submission of VAT returns.</p>	<p>Perform a VAT reconciliation listing, amounts paid to and refunds due from SARS for the 2011/12 financial year.</p> <p>Place copies of the VAT returns and supporting calculations on file.</p> <p>Review the controls in place for the preparation of VAT returns and for the submission thereof, and propose changes to management if not compliant to latest regulatory requirements.</p>	27-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
7.2.1	<p>Net VAT payable/receivable</p> <p>Determine the net VAT balance at 30 June 2011 and 30 June 2012 as follows:</p> <p>(i) Review VAT returns submitted during the 2010/11 and the 2011/12 financial years and observe when payments in respect of these returns have been made by SARS or when refunds in respect of these returns have been made to Mafube.</p> <p>(ii) The net amount payable to or receivable from SARS, based on VAT returns submitted in respect of the 2010/11 and the 2011/12 financial years, will be regarded as the VAT "cash" balance at 30 June 2011 and 30 June 2012.</p> <p>(iii) Cognisance should be taken of VAT audits performed by SARS and any VAT adjustments made by SARS</p> <p>(iv) Calculate the VAT consequences of amounts receivable (Accounts Receivable) and amounts payable (Accounts Payables and Accruals) at 30 June</p>	104, 60	Gift	Palesa	Discussed with management and inspected the 2010/11 AFS and management letter to determine if regulatory requirements were adhered to.	Per inspected of the 2010/11 management report it was identified that the VAT per the VAT returns and the VAT per the general ledger did not agree.	<p>Review VAT returns submitted during the 2010/11 financial year and observe when payments in respect of these returns have been made by SARS or when refunds in respect of these returns have been made to Mafube.</p> <p>The net amount payable to or receivable from SARS, based on VAT returns submitted in respect of the 2010/11 financial year, will be regarded as the VAT "cash" balance at 30 June 2011.</p> <p>Cognisance should be taken of VAT audits performed by SARS and any VAT adjustments made by SARS.</p> <p>Calculate the VAT consequences of amounts receivable (Accounts Receivable) and amounts payable (Accounts Payables and Accruals) at 30 June 2011 and 30 June 2012. The net VAT amount to be disclosed in the AFS will be sum of the aforesaid calculation plus the "cash" based VAT balance as calculated above.</p> <p>Any difference between the total net VAT balance and the amount previously recognised in the AFS will be adjusted against accumulated surplus at 30 June 2010, i.e. it will be processed as a prior period error.</p>	27-Jul-12
7.2.2	<p>VAT Recalculation</p> <p>(i) Calculate Input and Output VAT based on the cash books for the 2011/12 financial year.</p> <p>(ii) Compare these calculated VAT amounts with the amounts declared on the VAT returns during the 2011/12 financial year.</p> <p>(iii) Take the difference calculated above into account when submitting the next VAT return to SARS. Ensure that a detailed calculation is prepared and maintained for record purposes.</p> <p>Note: Monthly VAT returns have been submitted by Mafube management, but management did not check that all tax invoices were indeed valid. SARS may as a result disallow input VAT being claimed on certain invoices.</p>		Gift	Palesa	Activity will be performed in the implementation phase.	N/A	<p>Calculate Input and Output VAT based on the cash books for the 2011/12 financial year.</p> <p>Compare these calculated VAT amounts with the amounts declared on the VAT returns during the 2011/12 financial year.</p> <p>Take the difference calculated above into account when submitting the next VAT return to SARS. Ensure that a detailed calculation is prepared and maintained for record purposes.</p>	27-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
7.4	<p>Leave accrual</p> <p>(I) Request management's decisions relating to the following:</p> <ul style="list-style-type: none"> - Effective date of applying maximum of 48 days leave per employee - i.e. 30 Jun 12 or 30 Jun 11. - Negative leave days - Terminations with remaining balances - Position of employee not taking minimum of 16 days leave. <p>(ii) Update leave calculations based on decisions taken by management.</p> <p>(iii) Propose correcting journal entries for management's consideration and approval.</p> <p>Leave registers</p> <p>Agree with HR management on action plan to:</p> <ul style="list-style-type: none"> * Ensure that all the leave forms for both 2010/11 and 2011/12 financial year are collected from all the departments and are captured into the excel spreadsheet. * Ensure all the forms are authorised, dated and signed. * Where approval date is after leave dates, ensure there is a 		Bongani Sigasa (Human resources)	Palesa	Discussed with management Human Resources and Finance	<p>There is no leave register that we can use for audit purposes.</p> <p>The register provided to KPMG does not have opening balances.</p> <p>Management suggested that the leave records in VIP system are not accurate. Payday payroll system was used by the municipality prior to change over to VIP in August 2008, & management is of the opinion that the leave records in Payday were more accurate. For complete and accurate records, management has decided that 30 June 2008 leave balances be used as starting point for the exercise of populating leave register.</p>	<p>We have agreed with management that KPMG will provide the HR team with a leave register template that will be populated using the leave application forms filed in the individual employee files.</p> <p>The leave forms for the current year have not yet been captured by management. The process is expected to take some time.</p> <p>Interns will be requested to assist Human Resources staff in the process.</p> <p>The following process will be followed:</p> <ul style="list-style-type: none"> i) leave balances as at 30 June 2008 will be accepted as a starting point (payday payroll print outs will be used to source the leave balances). ii) All the leave forms for 2011/12 not yet filed, will be arranged alphabetically and filed in the employees' leave files (management prefers that the forms be captured in VIP before filing) iii) Leave movements to be captured on the excel spreadsheet for the period since 30 June 2008 to 30 June 2012. iv) Once leave days are finalised, accrual will be calculated & limited to 48 days as legislated. The excel report will be used for audit purposes for 2011/12 year. v) Based on the leave dates per the supporting schedules to the register, management will compare excel spreadsheet with VIP system current details and where necessary the VIP system will be updated. 	30/06/2012
7.5	<p>Bonus accrual</p> <p>Check the reasonableness of the bonus accrual by recalculating the bonus accrual amount. (Note: Employees receive bonus payments each year in the month on which they were born). Specific attention should also be paid to the position of Section 57 appointees where bonus payments are linked to performance. Escalate challenges encountered to management to take corrective action.</p>	Ex 224, Ex 125	Gift Gwanya (Financial Accountant)	Palesa	Reviewed management letter and discussed with management	<p>Accrued bonus was disclosed as a provision in the 2010/11 AFS instead of employee benefits</p> <p>Incorrect days were used in the calculation of the bonus accrual for 2010/11 AFS</p>	<p>-At implementation phase, obtain calculation from management on bonus accrual</p> <p>-Ensure section 57 managers and contract workers are excluded (existence).</p> <p>-Verify completeness of the list by comparing employees on 2010/11 & 2011/12 list. Follow-up exclusions to terminations list and additions to appointments list.</p> <p>-Follow-up with management on any further exceptions noted.</p> <p>-Consider recalculating prior year bonus accrual based on date of birth.</p>	13/07/2012



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
7.6	<p>Consumer deposits</p> <p>Check if consumer deposits can clearly be linked to the respective consumer debtors and reflect receipt numbers & consumer account numbers.</p> <p>The AG reported that there are deposits which were posted to incorrect GL accounts</p>	Ex 127, Ex 128, Ex 22	Ntibileng Ndlomo	May-Mari	Reviewed management letter and discussed with management	<p>No reconciliation is made between deposits register and the deposits per the general ledger.</p> <p>List extracted by management cannot be clearly linked to consumer debtors.</p> <p>There are 2338 consumers with deposits of R1 270 779.56. There are approximately 33 000 consumers .</p> <p>Deposits may be understated due to incorrect posting in the general ledger.</p>	<p>- management to reconcile deposits register and the listing from the general ledger.</p> <p>-All reconciling items to be followed up and cleared</p> <p>-reconciliation to be reviewed and signed by the CFO</p> <p>-Management to identify all the debtors without deposits and consider if there is need for deposits to be raised, i.e. for consumers who frequently default on their obligations to the municipality.</p> <p>-Calculate potential loss in security on consumers without deposits or with inadequate deposits. Provide the calculations to management for further decision making.</p> <p>Note the reconciliation between the deposits register and the general ledger will identify any mispost in prior years. Such misposts should be reallocated from the accumulated surplus to the deposits accounts.</p>	13/07/2012
7.7	<p>Existence and completeness of consumer deposits</p> <p>(i) Review management's analysis to ensure that consumer deposits exist for all consumer debtors by comparing the consumer deposit list to the debtors listing.</p> <p>(ii) Check if deposits are sufficient to cover at least 1 month's consumption.</p> <p>(iii) Document reasons for non-payment/ insufficient deposits.</p> <p>(iv) Escalate challenges encountered to management to take corrective action.</p>	Ex 127, Ex 128	Ntibileng Ndlomo	May-Mari	Requested for the listings of consumer deposits and debtors listing for comparison to ensure existence and completeness	<p>Refer to above detailing information recorded on the deposit lists.</p> <p>No reconciliation is performed between the consumer deposit list and consumer debtors list.</p>	Refer to above	13/07/2012
	Total hours							
8	Property, plant and equipment							



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
8.1	<p>Infrastructure assets</p> <p>(i) Service provider to compile a GRAP 17 compliant infrastructure asset register and provide details in terms of process followed to ensure completeness of infrastructure assets, componentised assets, determination of current replacement cost, depreciated replacement cost, standard useful lives, remaining useful lives, residual cost per asset type and impairment value.</p> <p>(ii) Review documentation and determine if approach/ methodology would be acceptable from an audit perspective. Summarise the approach followed by the consulting engineer firm in constructing the infrastructure asset registers at 30 June 2008 for audit purposes.</p> <p>(iii) The consulting engineering firm to confirm in writing if work-in-progress was taken into account when compiling the infrastructure asset register at 30 June 2008.</p> <p>(iv) Escalate shortcomings</p>	226	Gift	Werner	<p>Inspected the 2010/11 AFS, management letter to identify the current state of infrastructure assets.</p> <p>Inspected the consulting engineering firms' approach/ methodology to address the activities as described.</p> <p>Obtained, inspected and distributed the current asset register to the consulting engineering firm who will be responsible for the activity described.</p>	<p>The consulting engineering firm will be responsible for the compilation of an infrastructure register for compliance with the GRAP 17 requirements.</p> <p>Accepting the approach/ methodology used by the consulting engineering firm in dealing with the following critical aspects of the unbundling process:</p> <p>(i) The completeness of infrastructure asset listed. The methodology used to ensure completeness is documented.</p> <p>(ii) Components, according to the report will be in accordance with IMESA standards</p> <p>(iii) The determination of standard useful lives will be in accordance with IMESA standards</p> <p>(iv) Remaining useful lives will be determined with reference to the condition of the asset. Once the condition of the asset has been determined, the standard/ expected useful lives with reference to the IMESA standards will be used as a guideline to determine the remaining useful lives.</p> <p>(v) Current replacement values and depreciated replacement values will be determined with reference to IMESA standards.</p> <p>(vi) Asset residual cost per asset type, which will be based on the likely monetary value that could be redeemed by the municipality following the sale/</p>	<p>Accept the infrastructure asset registers, compiled by the consulting engineering firm, as reasonable.</p> <p>Deal with audit queries in this regard as and when queries are raised by the audit team. <u>Reason:</u> The audit team is likely to select a different sample than the project team of items to be verified to determine the reasonableness of information contained in the infrastructure asset registers.</p> <p>Review infrastructure assets for accuracy.</p> <p>Consider impairment of assets and reflecting it at a deemed cost of Rnil.</p> <p>Also refer to Item 8.2 below for the method to be followed and calculations to be performed in respect of infrastructure assets for the 2010/11 and 2011/12 AFS.</p>	15-Jun-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
8.2	<p>Infrastructure asset register</p> <p>Assist management with the compilation of the updated infrastructure asset register on the following basis:</p> <p>(i) Opening balance: Infrastructural assets listed and valued by the service provider at 30 Jun 08.</p> <p>(ii) Additions: Capital projects completed during 2008/09, 2009/10, 2010/11 and 2011/12 as detailed per the Capital Project Register for the respective financial years.</p> <p>(iii) Also use the Capital Register at 30 June 2009, 30 June 2010, 30 June 2011 and 30 June 2012 to identify work-in-progress at the respective year-ends and disclose as a separate category of PPE per the 2011/12 AFS.</p> <p>(iv) Determine the components that should be recognised for these additions with reference to the components identified by the consulting engineering firm and/or IMESA standards.</p> <p>(v) Assign useful lives to 2008/09</p>	226	Gift	Werner	<p>Reviewed Contract register (MIG Register) for both the 2011/12 financial year and requested the Contract register (MIG register) for the 2008/09 and 2009/10 financial years to identify additions to infrastructure assets since 1 Jul 08.</p>	<p>Refer to item 8.1 above for the "Findings/ Issues encountered" when reviewing the current infrastructure assets.</p> <p>The 2008/09, 2009/10 and 2010/11 MIG Contract Register (MIG register) must be obtained and the 2011/2012 Project register (MIG register) updated to contain information up to 30 June 2012.</p>	<p>Reverse the existing accumulated depreciation balance in respect of infrastructure assets at 30 Jun 08 in its totality.</p> <p>Refer to item 8.1 above. Recalculate the deemed cost of infrastructure assets at 30 Jun 08 by using the depreciated replacement cost method.</p> <p>Determine the additions to infrastructure assets with reference to the Project registers (MIG Registers for 2008/09, 2009/10, 2010/11 and 2011/12, and update the infrastructure asset registers accordingly.</p> <p>Determine the components that should be recognised for these additions with reference to the components identified by the consulting engineering firm and/or IMESA standards.</p> <p>Assign useful lives to 2008/09, 2009/10, 2010/11 and 2011/12 additions with reference to the IMESA standards.</p> <p>Calculate depreciation for the 2008/09, 2009/10, 2010/2011 and 2011/2012 financial years based on the remaining useful lives of the various components of the infrastructure assets.</p> <p>By inspecting the MIG register, determine the infrastructure work-in-progress balance as at 30 Jun 11 and adjust comparative amounts accordingly.</p> <p>Also disclosed work-in-progress for the 2011/12 financial year separately.</p>	27-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
8.3	<p>Moveable assets</p> <p>(i) Mafube to perform an annual asset count of all movable assets for inclusion in the revised movable asset register with reference to current regulatory requirements.</p> <p>(ii) Review asset counts sheets relating to asset count conducted by management for the 2011/12 financial period, and inspect minutes to council meetings to verify that this was presented to council for approval.</p> <p>(iii) Identify moveable assets purchased and disposed off in 2008/09, 2009/10, 2010/11 and 2011/12 with reference to the current and prior year cash books and update the revised assets register accordingly.</p> <p>(iv) Mafube to obtain supporting documentation for the 2008/09, 2009/10, 2010/11 and 2011/12 additions and disposals. List high value additions lacking supporting documentation for follow-up by Mafube management. Declare the outstanding list of missing</p>	54, 74, 89, 91, 141, 143, 152, 159, 171, 175, 226	Gift	Mmuso	<p>Discussed with management and inspected the 2010/11 AFS, Management letter and Asset register to identify:</p> <p>(i) The condition of the current asset register;</p> <p>(ii) If movable assets purchased and disposed off in 2008/09, 2009/10, 2010/11 and 2011/12 with reference to the current and prior year cash books will be easily identifiable;</p> <p>(iii) If supporting documentation for the 2008/09, 2009/10, 2010/11 and 2011/12 additions and disposals are available.</p> <p>(v) If additions and can clearly be linked to the asset count sheets;</p> <p>(vii) Potential finance</p>	<p>Based on the work performed in the assessment phase the following was noted:</p> <p>(i) The current asset register contains both immovable and movable assets (no separate movable asset register was noted);</p> <p>(ii) That movable assets purchased and disposed off in 2008/09, 2009/10, 2010/11 and 2011/12 with reference to the current and prior year cash books will be identifiable;</p> <p>(iii) There might be a lack of supporting documentation for the 2008/09, 2009/10, 2010/11 and 2011/12 additions and disposals.</p> <p>(v) It will be a challenge to link additions to the asset count sheets;</p> <p>(vii) The asset count sheets might contain potential finance lease assets,</p> <p>(viii) It will be challenging to reconciliation of the remainder of moveable assets (i.e. excluding 2008/09, 2009/10, 2010/11 and 2011/12 purchases and possible finance lease assets) per revised movable asset register can be performed with the movable assets recorded on the system.</p>	<p>(i) Mafube to perform an annual asset count of all movable assets for inclusion in the revised movable asset register with reference to current regulatory requirements.</p> <p>(ii) Review asset counts sheets relating to asset count conducted by management for the 2011/12 financial period, and inspect minutes to council meetings to verify that this was presented to council for approval.</p> <p>(iii) Identify movable assets purchased and disposed off in 2008/09, 2009/10, 2010/11 and 2011/12 with reference to the current and prior year cash books and update the revised assets register accordingly.</p> <p>(iv) Mafube to obtain supporting documentation for the 2008/09, 2009/10, 2010/11 and 2011/12 additions and disposals. List high value additions lacking supporting documentation for follow-up by Mafube management. Declare the outstanding list of missing documentation to the auditors.</p> <p>(v) Additions that can clearly be linked to the asset count sheets should be reflected at cost price. Determine if the remainder of additions can be assigned to items on the count sheet on a reasonable basis that will be acceptable from an audit perspective. If not, ring fence such items and record the details (such as description, supplier, purchase date and purchase amount) thereof on a separate working paper.</p> <p>(vi) Document, in discussion with management, the process followed to ensure completeness of the moveable asset</p>	15-Jun-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
8.4	<p>Classification of assets Assist management with the process to ensure the appropriate classification of assets as PPE, inventory and investment property. Also refer item 10.1 below.</p> <p>(i) Identify properties listed in Mafube's name per the general valuation roll valid on the 1st of July 2008 and classify the assets accordingly. (ii) Replace land and buildings, inventory property and investment property currently recorded in the FAR with the above mentioned allocation per the valuation roll.</p> <p>Measurement of assets classified Use the valuation roll values valid at 1 July 08 to account for the different classes of assets.</p> <p>These items will initially be recognised at deemed cost at 1 July 2008 (fair value per the valuation roll on measurement date)</p> <p>Subsequent measurement will be</p>		Gift	Werner	<p>Inspected the 2010/11 AFS and management letter to determine if PPE, intangible assets, investment property, inventory and biological assets (if applicable) were properly classified.</p> <p>A soft copy of the latest general valuation roll was made available to the project team. It was noted that only one value is assigned to land and buildings per the latest valuation roll. Per the previous valuation roll separate values were assigned to land and improvements respectively. Also refer to the revenue and receivables section below for challenges encountered relating to the valuation roll.</p> <p>A only a hard copy of the previous valuation roll (valid on 1 July 2008) was made available at the time the assessment phase was conducted.</p> <p>The appropriate classification of properties registered in Mafube's name per the valuation roll as PPE, inventory or investment property still needs to be performed.</p> <p>Mafube's accounting policy is to carry all assets at cost. Inventories are valued at the lower of cost and net realisable value.</p>	<p>Potential inventory properties and investment properties were included as part of PPE per the 2010/11 AFS.</p> <p>A soft copy of the latest general valuation roll was made available to the project team. It was noted that only one value is assigned to land and buildings per the latest valuation roll. Per the previous valuation roll separate values were assigned to land and improvements respectively. Also refer to the revenue and receivables section below for challenges encountered relating to the valuation roll.</p> <p>A only a hard copy of the previous valuation roll (valid on 1 July 2008) was made available at the time the assessment phase was conducted.</p> <p>The appropriate classification of properties registered in Mafube's name per the valuation roll as PPE, inventory or investment property still needs to be performed.</p> <p>Mafube's accounting policy is to carry all assets at cost. Inventories are valued at the lower of cost and net realisable value.</p>	<p>Classification: Identify properties listed in Mafube's name per the general valuation roll that is valid at the 1 July 2008 and classify them accordingly via input from management as land and buildings, Property inventory and Investment properties</p> <p>Replace land and buildings, inventory property and investment property currently recorded in the FAR with the above mentioned allocation per the valuation roll.</p> <p>Measurement: Use the valuation roll values valid at 1 July 08 to account for the different classes of assets.</p> <p>These items will initially be recognised at deemed cost at 1 July 2008 (fair value per the valuation roll)</p> <p>Subsequent measurement will be according to Mafube's current accounting policy, i.e. measuring above mentioned classifications at cost less depreciation/ amortisation and impairment taking additions and disposals in to account.</p> <p>Use the latest valuation roll to test the completeness of the additions and disposals accounted for since the measurement date.</p> <p>A title deed searched may be introduced to test the existence of additions made since the measurement date</p> <p>Process the necessary adjustments in Mafube's accounting records.</p>	15-Jun-12
8.5	<p>General:Capitalisation Determine if the municipality is applying a capitalisation threshold, what the threshold is & the possible impact thereof on the audit opinion.</p> <p>Recommendations to be made to management for consideration and implementation.</p>		Gift	Werner	<p>Discussed with management and inspected the Asset Policy to identify if the municipality has a capitalisation policy and if a capitalisation threshold is specified.</p>	<p>Mafube applies an asset capitalisation threshold of R 2 000.</p> <p>The materiality of items with a value of less than R2 000 that is expensed in full instead of being capitalised and depreciated over its useful life must still be considered. This may have a negative impact on the audit opinion expressed by the Auditor-General.</p>	<p>Determine in discussions with management: (i) The nature of items purchased with a value lower than the capitalisation threshold and (ii) The average useful lives of such assets.</p> <p>Identify the general ledger account used to expense such items in the past and scrutinize the account to collaborate information obtained from management.</p> <p>Based on the materiality of items of a capital nature (with a value lower than the capitalisation threshold) expensed in the 2008/09, 2009/10, 2010/11 and 2011/12 financial years, determine if it will be necessary to calculate the estimated book values of such items if capitalised for audit purposes. Recommend to management that in future such items should be included in the Fixed Asset Register and be depreciated in full in year 1. This will ensure that the necessary information is readily available to perform estimated book value calculations for audit purposes.</p> <p>If the total value of such items are regarded as being material, determine if the monthly purchases of such items are available for the 2008/09, 2009/10, 2010/11 and 2011/12 financial years.</p> <p>Calculate an estimated book value of such items at 30 Jun 11 and 30 Jun 12 respectively based on the average useful</p>	15-Jun-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
8.6	Capital projects Obtain the Contracts Register (MIG register) for capital projects and check that: (i) Projects were properly authorised in terms of the SCM policy of the municipality. (ii) % completion is supported by relevant completion certificates/ supporting documentation. (iii) Retention of funds is in accordance with the agreement - Also check this is reflected as a commitment on the AFS. (iv) Procedures are in place to ensure that contract costs are not exceeded. (v) "Variation orders" were obtained for escalations and/ or over-expenditure. (vi) The necessary insurance is in place for capital projects. (vii) Escalate challenges encountered to management to take corrective action.		Gift	Werner	Discussed with management and inspected the Contract register for capital projects (MIG register) and Mafube's SCM policy to determine if: (i) Retention of funds were calculated and disclosed (ii) insurance is in place for capital projects. (iii) % completion is supported by relevant completion certificates/ supporting documentation.	The following activities were assessed in the assessment phase: (i) Retention of funds were not calculated and disclosed (ii) Inadequate insurance is in place for capital projects. (iii) % completion needs to be calculated and might be inadequately supported by relevant completion certificates/ supporting documentation. The following activities still needs to be assessed implementation phase: (i) That projects were properly authorised in terms of the SCM policy of the municipality. (ii) Procedures are in place to ensure that contract costs are not exceeded. (iii) "Variation orders" were obtained for escalations and/ or over-expenditure.	Ensure the following for the capital projects per the Capital project register (MIG register): (i) Projects were properly authorised in terms of the SCM policy of the municipality. (ii) % completion is supported by relevant completion certificates/ supporting documentation. (iii) Retention of funds is in accordance with the agreement - Also check this is reflected as a commitment on the AFS. (iv) Procedures are in place to ensure that contract costs are not exceeded. (v) "Variation orders" were obtained for escalations and/ or over-expenditure. (vi) The necessary insurance is in place for capital projects.	27-Jul-12
8.7	Obtain certificates from management in respect of capital project account balances .		Gift	Werner	Discussed with management if progress certificates for capital projects are available.	Management indicated that there are some missing progress certificates in support of capital project balances.	Agree progress certificates for all capital projects to payments made to date in respect of these capital projects as detailed in the Project register (MIG Register). Pay special attention to the date the last progress certificate was issued and the date that the next progress certificate was issued. Determine if a possible cut off issue may be raised by the audit team, discuss with management and document the outcome of the discussion. Process the relevant adjustments if deemed necessary.	15-Jun-12
8.8	Obtain certificates from management of asset counts performed per Department.		Gift	Werner	Discussed with management if certificates of asset counts performed per Department will be available subsequent to the asset count. Also refer item 8.3 above.	Refer to item 8.3 above.	Refer to item 8.3 above.	15-Jun-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
8.9	<p>FAR vs CaseWare</p> <p>(i) Compare the balances in the asset register with the balances per the relevant Venus (CaseWare) accounts for the 2010/11 and 2011/12 financial year ends.</p> <p>(ii) Propose correcting journals and submit to municipal management for consideration and approval.</p> <p>(iii) Escalate challenges encountered to management to take corrective action.</p>		Gift	Werner	Inspected the asset register and compare the balance thereof to the property, plant and equipment accounts per the 30 Jun 11 system TB.	<p>The total balance per the Fixed Asset Register at 30 Jun 11 do not agree to the total of the PPE accounts at that date.</p>	<p>Refer items 8.1 - 8.3 above.</p> <p>Compare the balances in the asset register (moveable and immovable) with the balances per the final trial balances for the 2010/11 and 2011/12 financial years respectively.</p> <p>Propose correcting journals and submit to municipal management for consideration and approval.</p>	27-Jul-12
8.10	<p>FAR: Appendix B and C</p> <p>Discuss with management how information per the Fixed Asset Register (immovable and moveable's), as calculated above, can best be summarised according to the information requirements of Appendix B (Analysis of PPE) and Appendix C (Segmental analysis of PPE).</p> <p>If this is not easily achievable, determine from management the alternative process that will be followed and identify the responsible persons to perform and review Appendix B and Appendix C.</p> <p>Note: Please bear in mind that this is a time consuming exercise & sometimes difficult to balance back to the PPE note in the AFS.</p>		Gift	Werner	<p>Discussed with management and inspected the 2010/11 AFS to determine the availability of information per the requirements of Appendix B and Appendix C.</p> <p>□</p>	<p>The information per the Fixed Asset Register (immovable and movables), still needs to be summarised according to the information requirements of Appendix B (Analysis of PPE) and Appendix C (Segmental analysis of PPE).</p> <p>The above listed Appendices were considered and included in the 2010/11 AFS but not prepared accordingly.</p> <p>□</p>	<p>Summarise the Fixed Asset Register information per the requirements of Appendix B & C.</p> <p>Alternatively consider only reflecting the detail in the notes to the AFS.</p>	27-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
8.11	<p>Classification: Non-current assets held for sale Check, through discussions with management, if any of the PPE items should be reclassified as: Non-current asset held for sale.</p> <p>If such items exist, (i) ensure correct classification of such items. (ii) ensure correct measurement before classification as a non-current asset held for sale. (iii) ensure that such items are subsequently re-measured at the lower of the carrying amount and fair value less costs to sell (iv) ensure that non-current assets held for sale are not depreciated or amortised.</p>		Gift	Werner	Discussions with management and inspection of 2010/11 AFS to identify if PPE were identified as being held for sale.	<p>Identified Non-current assets available for sale in the 2010/11 AFS.</p> <p>Currently management is not aware of any PPE items that should be reclassified as: (i) Non-current asset held for sale or (ii) Agricultural and biological assets</p> <p>Management will reassess in the when compiling the asset register.</p>	<p>If management identifies assets held for sale, (i) ensure correct classification of such items. (ii) ensure correct measurement before classification as a non-current asset held for sale. (iii) ensure that such items are subsequently re-measured at the lower of the carrying amount and fair value less costs to sell (iv) ensure that non-current assets held for sale are not depreciated or amortised.</p>	27-Jul-12
8.12	Review the valuation roll for items registered in the name of Mafube Local Municipality, that are not listed on the FAR.	219	Gift	Werner	Discussed with management and inspected the management letter to identify if items registered in the name of Mafube per the valuation roll are not listed on the FAR.	Items registered in the name of Mafube were identified that were not listed in the FAR.	Refer to item 8.4 above for the suggested solution pertaining to properties listed in Mafube's name per the valuation roll, but not recorded in the FAR.	15-Jun-12
8.13	<p>Review the current Asset Management Policy of Mafube to ensure that it is in line with the requirements of GRAP 17.</p> <p>If not in line, suggest changes to management to approve and implement.</p>		Gift	Werner	Obtained the current Asset Management Policy, and discussed the status there of with management	Management indicated that the current Asset Management Policy is outdated and needs to be updated.	Review the current Asset Management Policy of Mafube to ensure that it is in line with the requirements of GRAP 17.	15-Jun-12
8.14	<p>Useful lives Management to review the useful lives, residual values and depreciation/ amortisation method of PPE, Intangible assets and Investment properties.</p>		Gift	Werner	None	N/A	Activity to be performed in the implementation phase.	15-Jun-12
8.15	<p>Asset insurance Management to ensure that assets are adequately insured.</p> <p>Obtain the relevant insurance contract and include in the audit file for audit purposes.</p>	124	Gift	Werner	Discussed with management if assets are adequately insured.	Management indicated that assets will be adequately insured once the current replacement value of assets are determined through the activities listed under the PPE section.	Obtain a copy of the relevant insurance contract and confirm that assets are adequately insured.	27-Jul-12
Total hours								



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
9	Intangible assets							
9.1	<p>Intangible asset register</p> <p>Obtain intangible asset register/ list from management and review:</p> <p>(i) Process followed to ensure completeness of the intangible asset register. Also refer to prior year AFS.</p> <p>(ii) Type of intangibles assets owned by Mafube and</p> <p>(iii) The reasonableness of the useful lives assigned to intangible assets.</p> <p>If not complied, compile a intangible asset register through review of the asset register and discussion technical staff, intangible assets will be identified and placed in a separate asset register for intangibles.</p>		Gift	May-Mari	<p>Discussed with management and inspected the current asset register to identify a intangible asset register/ list from management, for review of the following:</p> <p>(i) Process followed to ensure completeness of the intangible asset register.</p> <p>(ii) Type of intangibles assets owned by Mafube and</p> <p>(iii) The reasonableness of the useful lives assigned to intangible assets.</p>	<p>Identify one asset register that contains all assets i.e tangible immovable, movable, investment and intangible assets.</p> <p>Intangible assets need to be stripped from the current asset register and transferred to a separate register. The following needs to be considered:</p> <p>(i) The process followed to ensure completeness of the intangible asset register still needs to be considered.</p> <p>(ii) Type of intangibles assets owned by Mafube consists of software system programs.</p> <p>(iii) The reasonableness of the useful lives assigned to intangible assets are considered to be fair.</p>	<p>Consider and document the process followed to ensure completeness of the intangible asset register, for the opening balances of the comparative year and the 10/11 and 11/12 financial periods.</p> <p>Document the reasonableness of the useful lives assigned to intangible assets.</p>	27-Jul-12
9.2	<p>Obtain a copy of the report regarding the legal status of Venus from the State Law Advisor for audit purposes.</p> <p>Consider the possible impairment of intangible assets in general.</p> <p>□</p>		Gift	May-Mari	<p>Requested the necessary documentary evidence i.e. Venus contractual agreement, to assess and file.</p>	<p>Discussions with management in respect of the legal status of the Venus system need to be held.</p> <p>The legal contracts relating to the Venus system contract is still outstanding.</p> <p>The possible impairment of intangible assets in general still needs to be considered.</p> <p>An approach to management still needs to be proposed for a decision, and journals to effect the decision needs to be prepared for management's review and approval.</p>	<p>Determine in discussions with management the legal status of the Venus system. Place necessary documentary evidence on file.</p> <p>Consider the possible impairment of intangible assets in general by referring to the GRAP requirements.</p> <p>Propose an approach to management for a decision and prepare a journal to effect the decision for management's review and approval.</p>	15-Jun-12
9.3	<p>Valuation roll costs</p> <p>Confirm with management that valuation roll costs were expensed and not capitalised (refer FAQ 3.4 issued by the ASB in Nov 2009).</p>		Gift	May-Mari	<p>Inspected the 10/11 AFS, to determine if the valuation roll costs were expensed and not capitalised.</p>	<p>Valuation roll costs for the 2010/11 financial period were expensed and not capitalised.</p> <p>This needs to be confirmed for the 2011/12 financial year after determining the accounting treatment of the valuation roll costs.</p>	<p>Inspect the cash book accounts at 30 June 2012, and confirm with management that the valuation roll costs for the 2011/12 financial year were expenses and not capitalised.</p> <p>Determine the accounting treatment of valuation roll costs.</p>	27-Jul-12
9.4	<p>Servitudes</p> <p>Confirm that only servitudes acquired by the municipality are capitalised (refer FAQ 3.10 issued by the ASB in Nov 2009).</p>		Gift	May-Mari	<p>Discussed with management that only servitudes acquired by the municipality were capitalised.</p>	<p>Management are not aware of any servitudes acquired by the municipality that needs to be capitalised.</p> <p>To confirm that this was the case for the 2011/12 financial year.</p>	<p>Inspect the cash book and confirm with management that the servitudes cost for the 2011/12 financial year were capitalised and not expensed.</p>	27-Jul-12
	Total hours							
10	Investment property							



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
10.1	<p>Identification of Investment property</p> <p>(i) Through review of the asset register, valuation roll and discussion with technical staff, identify investment property and place it in a separate asset register for Investment Properties. Also refer to item 8.4 above for the analysis of the valuation roll performed.</p> <p>(ii) Obtain, if applicable, resolutions taken by Council that will confirm the intention of management with regards to land and buildings. This will in turn determine the classification thereof as investment property, PPE, inventory or non-current assets held for sale.</p>	204	Gift	May-Mari	<p>Discussed with management and inspected the 2010/11 AFS and Management letter to identify if an asset register for Investment properties were compiled, and if resolutions were taken by Council to confirm the intention of management with regards to land and buildings.</p> <p>This will in turn determine the classification thereof as investment property, PPE, inventory or non-current assets held for sale.</p>	<p>Identified that an asset register for Investment Properties needs to be compiled.</p> <p>The current asset register and property valuation roll (valid on the 1 July 2008) needs to be inspected, and discussion held with the technical staff to identify investment property to be placed in a separate asset register for Investment properties.</p> <p>Additions and disposals of above mentioned investment property needs to be identified for the 2008/09, 2009/10, 2010/11 and 2011/12 financial periods and account for accordingly.</p> <p>Discuss with management the proposed solution and identify any properties earmarked to be used as investment properties.</p> <p>Resolutions needs to be taken by Council to confirm the intention of management with regards to land and buildings, which will in turn determine the classification thereof as investment property, PPE, inventory or non-current assets held for sale.</p> <p>Where identified, obtain council minutes resolutions.</p>	<p>Through review of the current asset register, valuation roll (valid on the 1 July 2008) and per discussion with technical staff, identify Investment property and place it in a separate asset register for Investment properties.</p> <p>Identify additions and disposals made to and from the above mentioned properties identified for the 2008/09, 2009/10, 2010/11 and 2011/12 financial periods and account for accordingly.</p> <p>(The above mentioned valuation roll needs to be reconciled with the latest valuation roll to identify any unaccounted properties belonging to Mafube)</p> <p>Obtain council minute resolutions taken by Council that will confirm the intention of management with regards to land and buildings. This will in turn determine the classification thereof as investment property, PPE, inventory or non-current assets held for sale.</p>	27-Jul-12
10.2	<p>Cost or fair value model</p> <p>(i) Determine if management will be using the cost or fair value model to account for investment property</p> <p>(ii) Cost model: Review useful life and calculate the applicable depreciation and expense it in the correct financial year.</p> <p>(iii) Fair value model: Fair value to be determined with sufficient regularity to ensure that the value per the AFS approximates the fair value of the investment properties.</p>		Gift	May-Mari	<p>Inspected the 2010/11 AFS to:</p> <p>(i) Determine if management will be using the cost or fair value model to account for investment property, and performed the following procedure regarding the relevant model:</p> <p>(ii) Cost model: Review useful life and calculate the applicable depreciation and expense it in the correct financial year.</p> <p>(iii) Fair value model: Fair value to be determined with sufficient regularity to ensure that the value per the AFS approximates the fair value of the investment properties.</p>	<p>Investment property is currently measured using the cost model.</p> <p>The cost needs to be determined with sufficient regularity to ensure that the value per the AFS approximates the cost of investment properties.</p> <p>The softcopy of the valuation roll (valid on the 1 July 2008) need to be used for the take-on balances i.e. at 1 July 2008.</p> <p>Only a hard copy was available during the assessment phase.</p> <p>Obtaining the softcopy is essential as this will be a time consuming exercise if the hardcopy needs to be scrutinised on a line by line item to identify the deemed cost (fair value on measurement date) of all the Mafube properties accounted for using the cost model.</p> <p>Refer to section 8.4 Classification of Assets for more finding and issues encountered.</p>	<p>Determine the deemed cost (fair value at measurement date) with sufficient regularity to ensure that the value per the AFS approximates the cost of investment properties by referring to the general property valuation rolls valid at 1 July 2008.</p> <p>Refer to section 8.4 Classification of Assets for more proposed solutions.</p>	15-Jun-12
Total hours								



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
11	Receivables							
11.3	Impairment calculations Assist management with the impairment calculation with specific reference to the impairment of receivables on a portfolio and individual basis.	Ex 138	Gift Gwanya	Palesa	Obtained list of indigents debtors and debtors handed over to debt collectors and respective progress report. 84% (2011-86%) of the receivables are 90+ old.	Management does not have a detailed listing of debtors at the end of the previous year, i.e. detailed per category. Management does not have effective debtors recovery mechanisms in place.	Respective impairment calculations will be performed during the implementation phase of the project. We have already requested management to ensure that at 30 June 2012 a detailed debtors list per category and service line is extracted from e 'Venus. This will enable impairment assessment in different groups or similar characteristics or risks. Impairment will be calculated for 2010/11 as well. Subsequent to lifting of court ruling on cutting of electricity on overdue accounts, management should consider cutting off electricity on long outstanding balances by invoking the applicable by-law. Obtain confirmations as at 30 June 2011 & 30 June 2012 on the following types of debtors: (i) Businesses (ii) Farmers (iii) Government departments (iv) Residents (with balances above R 5 000) All the balances in dispute or not confirmed should be provided for in full.	20/07/2012
11.4	AFS disclosure (i) AFS disclosure Assist management with the disclosure of loans and receivables in the AFS. For each category of loans and receivables disclose: (a) Gross balance (b) Impairment allowance (provision for bad debts) (c) Net balance (d) Amount transferred to current assets (ii) Explain each category of loans and receivables in the notes to the AFS. (iii) Provide a reconciliation of the impairment allowance reflecting: - Balance at the beginning of the year - Impairment losses reversed - Amounts written off as uncollectable - Balance at the end of the year		Gift Gwanya	Palesa	None. The necessary disclosure information will be collated during the implementation phase.	N/A	Collate necessary disclosure information during the implementation phase.	20/07/2012
	Total hours							
12	Accounts receivable							



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
12.1	Billing and receipting Identify all the pay points or receipting stations that the municipality is using. Obtain an understanding on how the billing system is linked to the different pay points.		Ntibileng Ndlomo, Gift Gwanya	Palesa	Discussed with management	The municipality has the following pay points: I) 2 Frankfort ii) 2 Villiers iii) Cornelia iv) Qalabotjha A module in the Venus (cash drawer) is used for receipting & contour system is used for prepaid electricity. The remote areas are however not linked to the Venus system in Frankfort and as a result backup is made on a memory stick twice a week for update of the central system. Detailed receipt listing is downloaded at the different remote areas and uploaded to the central system using receipt numbers, hence updating the individual debtor accounts. Billing is done centrally at Frankfort.	Management should consider linking the remote areas with the central system to avoid errors on uploading of excel files.	25-Apr-12
12.3.3	Property valuation (i) Check that property values have been updated with interim valuations e.g. alterations/ extensions to existing buildings (ii) Request an electronic copy of the supplementary valuation roll for the period 2011 - 2012. (iii) Compile a "final" valuation roll by substituting values on the general valuation roll with supplementary valuation roll values. (iv) Calculate differences between "final" valuation roll values and values recorded per the billing system. (v) Calculate the impact on revenue resulting from the correction of property values for management's consideration and action. An increase in consumer debtors relating to adjustments in property values may be irrecoverable and management should consider raising an impairment allowance in respect thereof.	Ex 195, Ex 199, Ex 228	Regina Meyer	Palesa	Discussed with the Revenue team Requested list of approved tariffs and download of tariffs per the EVenus system	There were no interim or supplementary valuations during the year under review. We have obtained soft copy of the current valuation roll. The valuation roll is being reconciled with the property values per the billing system. Obtained council minutes where the current valuation was approved by the council. Management still to provide download of tariffs per the e Venus system No support document for rates overcharge of R477 426.39 on 28 accounts. The AG reported on none follow up on 2009/10 audit findings.	Verify reconciliation of property values per Valuation roll and per billing system. Ensure the revenue losses are adjusted for in the system, where applicable and detailed workings are reviewed and filed for audit purposes. Compare list of approved tariffs with the download of tariffs per E Venus. This will be done during the implementation phase. Management to recalculate the adjustments on the 28 accounts made in year 2010/11 as queried by the AG. The calculations will be provided to AG for clearing of the audit query. Management to compile a list of all property values adjustments in 2011/12. Any adjustments made to the rates will be fully supported by the calculations. (Adjustments will be as a result of the reconciliation between Valuation roll and the billing system). Management should consider requesting condonement by council on errors for the 2009/10 revenue charges per Ex 228	30/03/2012



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
12.4	Indigent debtors (i) Obtain approved indigent debtor policy of the municipality (ii) Obtain Indigent Register (iii) Compare indigent debtors per the billing system to the Indigent Register (iv) Check that tariffs have been correctly loaded on the billing system			Palesa	Obtained and reviewed the indigents policy. Received list of indigents for 2011/12 financial year	We received list of indigents in Frankfort only. Complete list to be provided during implementation phase. List shows the following information: Name, surname, stand no., telephone no. & account no. Management to provide similar list for the other town. Management to also provide indigent debtors per the billing system. We confirmed that a list of tariffs loaded into system can be downloaded upon request for comparison during the implementation phase. Approved indigents are captured into the system with an expiry date and the system automatically deactivates indigent status upon expiry.	Use the Excel based Indigent Register to identify indigent consumer debtors. Adjust indigent debtor balances with credits due to them and impair the adjusted balances in full. Also refer to item 12.11 below.	13/07/2012
12.6	Water meter readings (i) Also confirm on how a regular basis water meter readings are done and if not done on a monthly basis how the municipality determine interim billings to be levied. (ii) Further determine reasons why meter readings are not taken & remedial action management plans to take. (iii) Escalate challenge encountered to management to take corrective action.			Palesa	Enquired with revenue & receivables team	Monthly meter readings are taken as from the 1st of each month to the 15th. The invoices are then finalised and issued on the last day of the month. Meter readings are at times not taken due to the inaccessibility of certain properties. In such instances, an average of three months' consumption is used as an estimate until such a time when they municipality gets access to the respective properties.	Calculate average monthly water & electricity revenue for the 2009/10, 2010/11 and 2011/12 financial years. Calculate on a pro-rata basis the amount of water revenue not recognised per year between the last water meter reading date and the financial year end (i.e. the last 15 days). The 2009/10 adjustment will result in a prior period error. Alternatively consider making no adjustment to water revenue in the 2010/12 AFS as a result of cut off issues. Also refer item 16.3 below.	13/07/2012
12.7	Debtors with credit balances Investigate debtors with credit balances and determine: (i) If it is a valid credit balance e.g. consumers paying in advance for certain services; or (ii) an indication of a business process problem e.g. invoices that are not raised, but payments are received from consumers.	Ex 195	Gift Gwanya	Palesa	Reviewed the consumer debtor age analysis for 2011 and 2012.	The municipality does not have a detailed age analysis as at 30 June 2011 and as at end of January 2012. Consumer accounts reflecting credit balances can be summarised as follows: (i) 2012: 2 255 credit balances with a value of R7 782 654.40	Investigate consumer accounts with credit balances to determine why the accounts are in credit. Possible explanations are: (i) Misallocation of receipts or (ii) Invoices not raised by the municipality or (iii) Prepayments made by the consumers.	13/07/2012
12.8	Trade receivables analysis Analyse trade receivables per consumer category for AFS purposes indicating: (i) Gross balance (ii) Impairment allowance (iii) Net balance AG reported a significant limitation of scope on receivables journals of R115 949 173,85 & R 95 591 980,05 No subsequent receipts were provided to the AG to verify existence of R5 999 563 debtors balance	Ex 118 Ex 167, Ex 186, Ex 83	Gift Gwanya	Palesa	To be performed at implementation phase Reviewed management letter & discussed with management	There is no support for journals which were processed by management in the 2010/11 AFS Hence limitation of scope.	Management should communicate with the service provider who prepared the journals for 2010/11 and obtain file for the 2010/11 AFS The information on subsequent receipts is available at the debtors section for review by the auditor general. Arrangements to be made with the AG to ensure time is made available for clearing prior year scope limitation.	30/03/2012



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
12.9	<p>Compile an age analysis per consumer category reflecting amounts outstanding per age category.</p> <p>Review reconciliation between debtors sub ledger and the general ledger</p>	Ex 98	Gift Gwanya	Palesa	Reviewed the consumer debtor age analysis for 2012 January.	<p>Age analysis is not detailed per consumer. The age analysis as at 29 February 2012 has 33 439 consumer debtors valued at R 130 million. The amount is inclusive of electricity debtors which remain with the municipality after take over by the electricity service provider.</p> <p>There is no reconciliation which is prepared between debtors control account and the general ledger</p>	<p>Management has been requested to ensure detailed consumer debtors age analysis are extracted from e Venus per consumer category for 2012.</p> <p>No such list can be extracted for 2011</p> <p>Management to perform a reconciliation between the debtors sub ledger and the general ledger. KPMG to review the reconciliation and ensure the reconciling items exist. CFO to sign off the reconciliation as evidence of review.</p>	06/07/2012
12.10	<p>Discounting: Revenue & receivables</p> <p>(i) Consider possible discounting of revenue & receivables. Note: GRAP 104 on financial instruments has been issued, but is not yet effective. Mafube may use the principles contained in GRAP 104 to formulate an accounting policy. It should be noted that GRAP 104 recommends that discounting is not necessary for the first 30 days that consumers are not charged interest as this is regarded as "normal credit terms".</p> <p>(ii) Alternatively consider not to discount revenue and to accept the possible audit qualification in this regard.</p>	Ex 150		Palesa	<p>Reviewed Circular 9/2006</p> <p>Discussed with management</p> <p>Reviewed Management letter</p>	<p>The revenue and receivables should be measured at fair value at initial recognition per circular 6/2009.</p> <p>Mafube municipality does charge interest on overdue accounts at the rate of prime plus 1 %.</p> <p>The AG reported errors in the calculation of the interest charged to the consumers</p>	<p>No further work is considered necessary since the municipality already charges an interest at prime plus +1%. During implementation control test will be performed to ensure that the system is accurately & timely updated with changes on the prime rate.</p> <p>Management to consider engaging the billing system programmer to verify system calculations. Current the system automatically calculates the interest charges based on the prime rate +1 as adjusted by the revenue clerk. Management to review update to the system to ensure correct rate is used going forward.</p>	25-Apr-12
12.11	<p>Review bad debts to be written off and assist management with the submission to Council</p>		Gift Gwanya	Palesa	<p>Reviewed the consumer debtor age analysis as at 29 February 2012.</p> <p>Reviewed debt collection policy</p>	<p>The age analysis is not split into different types of consumers i.e. property taxes should be further split into domestic, residential, farms, government etc. This will enable proper analysis of the receivables for possible bad debts.</p> <p>A request has been made to management to ensure the required age analysis with all the necessary field and right format is down loaded on 30 June 2012.</p>	<p>Obtain age analysis per sub-category of consumers.</p> <p>Management to review which consumer debtors at 30 Jun 12 to determine accounts for specific impairment or written off. Establish the financial period in which the account should be written off, i.e. current year, comparative year or as a prior period error. If the amount is immaterial consider accounting for full write off in the 2012 financial year.</p> <p>Obtain a council resolution on receivables to be written off.</p>	13/07/2012



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12.12	<p>Impairment: Trade receivables</p> <p>Calculate impairment of receivables for 2010/11 & 2011/12 and document:</p> <p>(i) methodology used in calculating the impairment and</p> <p>(ii) taking cognisance of subsequent payments received from customers. Request a report from the billing system reflecting subsequent receipts for individual residential consumers and farmers for the 2 months after year end. A report should be generated in respect of debtor balances outstanding at 30 June 2010, 30 June 2011 and 30 June 2012 respectively. Other categories of consumer debtors will be assessed on an individual basis.</p> <p>(iii) Application of the portfolio principle (grouping of consumers with similar characteristics/ risk profiles) in calculating the debtor impairment allowance. For this calculation it is necessary that the debtor age analysis be detailed per sub-category, e.g. property taxes should be further divided into consumer groupings like</p>	Ex 168 Ex 46	Gift Gwanya	Bheki	Reviewed the consumer debtor age analysis as at 29 February 2012.	<p>The age analysis is not detailed per individual consumer though it has been split into different types of consumers i.e. consumer groupings, e.g. domestic, residential, farms, government to ensure that consumers can be assessed in accordance with the portfolio principle (grouping of consumers with similar characteristics/ risk profiles).</p> <p>Detailed age analysis for prior periods cannot be extracted from eVenus system.</p> <p>The municipality has stated to hand over debtors to lawyers in trying to collect outstanding balances. The court case which barred municipality from cutting off electricity on overdue accounts.</p>	<p>The impairment allowance at 30 Jun 12, needs to be calculated. Any adjustment relating to the balance at 30 Jun 11 will be accounted for as a prior period correction. In the 2012 financial year, the municipality will only account for the movement in the balance between 2011 and 2012.</p> <p>Extract the age analysis for each service category per consumer type from the e Venus system for the 2011/12 financial year.</p> <p>Calculate impairment allowance (provision for bad debts) as follows:</p> <p>(i) Provide fully for indigent debtors. Also refer to item 12.3 above.</p> <p>(ii) For impairment of residential consumers and farmers extract a report from e Venus system showing subsequent receipts for each consumer for four months after year end. Provide for all the amounts not recovered after four months.</p> <p>(iii) Review businesses on an individual basis for possible impairment.</p> <p>(iv) Any increase in consumer accounts resulting from a correction in property values (rates & taxes) should be provided for in full.</p>	13/07/2012
12.13	<p>Impairment: Trade receivables</p> <p>Compile a reconciliation of the impairment allowance per consumer category reflecting:</p> <ul style="list-style-type: none"> - Balance at beginning of the year - Impairment losses recognised - Amounts written off as uncollectable - Balance at the end of the year. 		Gift Gwanya	Bheki	None. The necessary disclosure information will be collated during the implementation phase.	N/A	Prepare the reconciliation for disclosure purposes.	20/07/2012
12.14	<p>Compile an age analysis for sundry receivables (sundry debtors) reflecting amounts outstanding per age category and evaluate recoverability thereof.</p>		Gift Gwanya	Bheki	Obtain list of sundry debtors		<p>Investigate the accounts with credit balances.</p> <p>Identify amounts per the old consumer account listings owed by Government Departments and/ or parastatals. Discuss with management the reasons for non-payment and assess the likelihood of recovering these amounts.</p> <p>Prepare a submission to Council recommending that the old consumer accounts, excluding amounts assessed to be recoverable, be written off.</p>	13/07/2012
13	Inventory		Linda Tshablala and Nkomo					



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13.1	Inventory count Discuss with management and ensure that only items that meet the definition of inventory are classified as such including water stock. Assistance will also be provided in terms of the stock counting procedures at year-end.	Ex.130	Linda Tshablala and Nkomo	Mmuso	Discussion with management and inspection of the prior year AFS support file	<p>Mafube do have inventory count instructions. We obtained a copy and filed this on the hard copy file.</p> <p>Formal Inventory counts are only performed at year end. Linda indicated that they do perform counts on a monthly basis, but there is no support for this. Inventory count instructions are not followed / monitored as it should be and if differences are identified they are recorded on the count sheets, but not communicated to ensure that the GL is properly adjusted.</p> <p>Linda indicated that obsolete and slow moving stock are regulated by the supply chain management policy. Currently they have not identified any obsolete or slow moving items and there were no disposal of inventory items during the year.</p> <p>We requested a inventory listing to identify the nature of all inventory items, but have not received this during the assessment phase.</p>	<p>Pay specific attention to the inventory count by doing the following:</p> <ol style="list-style-type: none"> 1. Inspect the inventory count instructions and make recommendations and adjustments where applicable, specifically include how to update the GL with differences 2. Ensure that management and counting teams understand the instructions and sign that they do understand and have received instructions. 3. Request from management to do formal counts more frequently during the year to identify issues earlier and not only at year end. 4. Assist management throughout the inventory count 5. Also provide guidance in the count instructions on the following: <ul style="list-style-type: none"> - How to treat movements between the stock count and year end, goods in transit and consignment stock and ensure that they understand the guidance and check that its accordingly treated in the financial system. - How to identify obsolete and slow moving stock, check that this is accounted for correctly and approved by council. <p>Check that the system has been updated correctly with the items on hand as at 30 June 2012.</p> <p>A copy of the following should be obtained and filed in the AFS support file: (i) <u>Year end inventory count sheets and final stock listing</u></p>	30-Jun-12
13.2	Reconciliation between the final stock listing and the general ledger	Ex.130	Linda Tshablala and Nkomo	Mmuso	Discussion with management	No reconciliations are performed to date.	<p>Assist management in performing a reconciliation between the final stock listing and the GL.</p> <p>Ensure that a more senior employee review the reconciliation and sign as evidence of reviewing the recon. File a copy of the signed reconciliation on the audit file.</p>	30-Jun-12
13.3	Water on hand at year end Vela VKE will assist with the calculation of the volume of water on hand at year-end and at the different stages of purification. The production cost per unit of water purified will be determined in order to value water inventory.		N/A	Mmuso	N/A - this will be collected during the implementation phase	N/A	Obtain from sub contractor (Vella) their calculation of water in pipes at year-end as well as the assumptions used to base the calculation of water-in-pipes on. Check that the necessary corrections are processed on the system if needed.	31-Jul-12
13.4	Specific attention will also be paid to the accounting treatment of discounts received and land and buildings earmarked to be sold by Mafube in the ordinary course of business.		Gift Gaya	Mmuso	Discussions with management	None that they know of.	<p>During the implementation phase this should be confirmed by a letter from the Director of human settlement indicating that there is none.</p> <p>File a copy of the letter on the support file</p>	11-Jul-12
13.5	Valuation of inventory Determine if the municipality is determining the cost of inventory items by applying: (i) the First-in-first out method (FIFO) or (ii) <u>Average cost method</u>		Linda Tshablala and Nkomo	Mmuso	Discussions with management and inspection of the prior year AFS.	The FIFO system is used	Inspect the inventory listing and ensure that the FIFO system is used.	29-Mar-12



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13.6	<p>Inventory items to be distributed at no or nominal charge</p> <p>(i) Determine if the municipality is distributing any inventory items at no or nominal value.</p> <p>(ii) Categorise separately inventory items that are to be distributed at no charge or at a nominal charge.</p> <p>(iii) Such items should be valued at the lower of cost and current replacement cost.</p> <p>(iv) The position with regards to free water and electricity should be discussed with municipal management and documented for audit purposes. Items to take into consideration are:</p> <ul style="list-style-type: none"> - Equitable share allocations i.e., free water & electricity - Procedure followed when setting tariffs where the "free" element is recovered by way of increased tariffs levied i.e., water & electricity. 		Linda Tshablala and Nkomo	Mmuso	Inspection of the AFS and discussion with management.	<p>As per accounting policy inventory is measured at transitional provision.</p> <p>As per the AFS the provision expires on 30 June 2012, but this provision actually expired on 30 June 2011 and therefore the current year and the prior year should be adjusted to the correct class of inventory and measured accordingly.</p> <p>We have requested from management a list of inventory to identify the nature, but have not received anything during the assessment phase.</p>	<p>Obtain a list of all inventory items and identify items distributed at no or nominal charge</p> <p>Assist management by providing guidelines on how to calculate this.</p> <p>Ensure that the calculations are reviewed by a more senior employee and signed as evidence of review.</p> <p>Obtain a copy of the reviewed calculations and place it on the AFS support tile.</p>	13-Jul-12
13.7	<p>Valuation of other inventory items</p> <p>Check that other inventory items are valued at the lower of cost and net realisable value. If not, assist management by providing guidelines on how to calculate this.</p>		Linda Tshablala and Nkomo	Mmuso	Discussions with management	No NRV calculation was performed to date	<p>Assist management by providing guidelines on how to calculate this.</p> <p>Ensure that the calculations are reviewed by a more senior employee and signed as evidence of review.</p> <p>Obtain a copy of the reviewed NRV calculations and place it on the AFS support tile.</p>	13-Jul-12



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13.8	Distribution losses disclosed in AFS	Ex.103	Regina Meyer	Mmuso	Inspection of the prior year audit support file and discussed the availability of information to calculate water and electricity distribution losses.	Management did calculate the distribution losses for water and electricity up to December 2011. A copy of the calculation was obtained and saved on the Mafube folder. There are currently no policy guiding them how to do the calculation, they use a template obtained from the DBSA.	<p>(i) Assist management to document the water and electricity inventory processes applicable to Mafube. Specific attention should be given to the following:</p> <ul style="list-style-type: none"> - The point in time that transfer of ownership occurs - Accuracy of the template obtained from the DBSA. - A sound understanding should also be obtained of how and when inventory are stored. - How the calculation on distribution losses is performed and this should be provided to the Auditors. <p>(ii) Inspect the calculation performed by management and propose adjustments where necessary. Ensure that all the required supporting schedules are in place and obtain a copy for our support file.</p> <p>(iii) Assist management to prepare a report on water and electricity distribution losses for submission to Council.</p> <p>(iv) Determine, in discussion with management, if any of the calculated losses can be regarded as abnormal losses. Abnormal losses should be expensed while normal losses should be capitalised to the cost of inventory. Retain working papers to determine value of inventory to be included in the AFS.</p> <p>(v) Disclose distribution losses in the AFS.</p>	15-Aug-12
	Total hours							
14	Cash and bank		Pinky Nthuping (call accounts) / Mananki Mokwena (cash banking)					
14.1	Supporting documentation for auditors journals in the cash and cash equivalents accounts.	Ex.119, Ex.100	Gift Gaya	May-Mari	Discussions with management	Management indicated that there are no support for these journals.	Refer above to accumulated surplus section for the process to be followed with journal entries.	N/A - incorporated in the procedure for opening balances under accumulated surplus section



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14.2	Reconciliation between the cash books and the monthly download of the bank statements	Ex.210	Gift Gaya	May-Mari	Discussions with management.	<p>No reconciliations were performed since 2010.</p> <p>BCX consultants is currently busy linking the different accounts, deposits, payments to do a bank reconciliation electronically.</p> <p>BCX indicated that they intend to finish with all the bank reconciliations by the end of April 2012.</p> <p>Gift has however got a lot of experience in performing bank reconciliations and is assisting BCX with the linking and managing the process.</p>	<p>BCX consultants indicated that they, together with Mafube management will need approximately 2 weeks to link the deposits and 4 weeks to link the rest of the accounts.</p> <p>After this additional time should be estimated to go into detail in long outstanding unallocated deposits. Refer to procedure below.</p> <p>KPMG to do the following:</p> <p>(i) Regularly follow up on the progress of the linking of accounts and bank confirmations and provide assistance where possible.</p> <p>(ii) Ensure that the bank reconciliation is reviewed by a more senior employee and signed as evidence of review.</p> <p>(iii) Obtain a copy of the signed reconciliation together with the support and file on the AFS support file.</p>	31-May-12
14.3	Unallocated deposits	Ex.16	Gift Gaya / Mahanki Mokwena	May-Mari	Discussions with management	<p>Management indicated that there are +- R24 million of unallocated deposits.</p> <p>Unallocated deposits are lying in a separate balance sheet account</p> <p>BCX consultants is currently busy linking the different accounts, deposits, payments etc to do a bank reconciliation electronically.</p> <p>BCX indicated that they intend to finish with all the bank reconciliations by the end of April 2012 and this will include the linking of unallocated deposits.</p> <p>They have however indicated that approximately 4 weeks should additionally be estimated for the unallocated deposits that are long outstanding and may not be linked by BCX.</p>	<p>Assist management in linking the unallocated deposits that were not linked by BCX.</p> <p>As discussed: Gift, together with the Mafube employees will start with this and KPMG will assist and follow up on the progress regularly:</p> <p>The following should be done to identify where to allocate the deposits to:</p> <p>(i) Discuss and document the whole process for how these deposits are captured in the system up to how they are allocated to the different sections. Inspect the balance sheet account for unallocated deposits to identify all unallocated deposits not linked. Also discuss with BCX consultants if they have such information available.</p> <p>(ii) Where unallocated deposits can be linked to a specific debtor, this should be transferred to the debtor account and supporting documentation should be kept. (Unallocated deposits can also be linked to a debtor by either contacting the bank and ask for additional information, contact the debtor directly and confirming the balance and ask for payment done by them etc.)</p> <p>(iii) These unallocated deposits will then be incorporated in the bank reconciliations above. It is important to have the date of the deposit to link it to the specific reconciliation.</p>	31-May-12
14.4	Bank confirmation	Ex.85	Gift Gaya / Mahanki Mokwena	May-Mari	N/A - this will be done at year end	N/A	Bank and investment balances at the reporting date will be confirmed independently by the issue of a bank confirmation from the respective banks to the auditors (entities should ensure that banks are provided with a letter giving 'Authority to Disclose Information' to auditors)	30-Jun-12



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14.5	Petty cash		Linda Tshablala / Gift Gaya	May-Mari	Discussions with management	There are no petty cash register. There is a draft petty cash policy. No reconciliations are performed. Management indicated that petty cash is provided via a cheque and the following are the maximum float at each town: Frankfort R 4 000 Tweeling R 1 000 Cornelia R 1 000 Villiers R 2 000.	If management agree with the content of the draft policy, request management to ensure that the draft policy is approved. Management responsibility to ensure that the policy is followed and that the necessary procedures are performed, reviewed etc. Specific attention should be given to segregation of duties, signing of issue vouchers and performing and reviewing of reconciliations. At year end, obtain support for the audit file to confirm the amount of petty cash as year end.	06-Jul-12
14.6	Additional issues identified: Cut off issues due to different locations		Gift Gaya / Mahanki Mokwena	May-Mari	Discussions with management	There are 4 additional locations in towns surrounding Frankfort. These locations do have their own even us, but this is not linked to the Mafube even us. Therefore payments / deposits are captured at each location and on a monthly basis it is downloaded at the location on a memory stick, and taken to Frankfort, which then upload this in a batch format on even us at Frankfort. This however lead to cut off issues at year end. Currently there are no policy in place to regulate this. Management also indicated that they do not have the infrastructure in place to link the different locations.	Refer to reconciliation to be performed above on the bank balance. Together with management input, formulate a process to ensure that items are captured accurately and on a timely basis on the Mafube even us. Also document the audit trail for how to link the transactions to the batch uploaded on the system. Provide guidance on if there are timing differences how to incorporate this into your bank reconciliation.	27-Apr-12
	Total hours							
15	Investments							
15.1	Lead schedule - Investments Prepare a lead schedule for Investments (map trial balance accounts on CaseWare). Ensure lead schedules provide for sub-totals to support amounts in the notes to the AFS and well as a grand total agreeing to the amount per the Statement of Financial Position and the system.	79	Gift	May-Mari	Inspected the 2010/11 Management letter to identify if any challenges were encountered in agreeing the system to the register and to the 2010/11 AFS	The management letter reported on differences between the Investment register, E-Venus and CaseWare (AFS).	Prepare a lead schedule for investments (map trial balance accounts on CaseWare). Ensure lead schedules provide for sub-totals to support amounts in the notes to the AFS and well as a grand total agreeing to the amount per the Statement of Financial Position and the system.	27-Jul-12
15.2	Financial Instruments: Recognition Confirm that investments are recognised in accordance with IAS 39 Financial Instruments: Recognition and Measurement, to account for investments held by the municipality.	78	Gift	May-Mari	Inspected the 2010/2011 AFS to confirm that investments held by the municipality are recognised in accordance with IAS 39.	Mafube adopted IAS 39 Financial Instruments: Recognition and Measurement A GAP analyses needs to be performed to confirm the compliance of IAS 39 Financial Instruments: Recognition and Measurement. The accounting policy needs to be inspected and revised if necessary.	Perform a GAP analysis of Investments and the accounting thereof to confirm the compliance of IAS 39 Financial Instruments: Recognition and Measurement. Where gaps are identified, suggest and implement the recognition and measurement regarding IAS 39.	15-Jun-12



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15.3	<p>Investment Register Obtain an investment register highlighting both short and long term investments / deposits supported by investments certificate, highlighting investments made, withdrawals</p> <p>Finance income Review investment certificates on external investments obtained by management to confirm interest income earned for the current financial year.</p> <p>Check that details correspond to finance income schedule prepared above.</p> <p>Prepare a schedule of revenue on external investments e.g. interest income on bank deposits, interest income on unimpaired held-to-maturity investments, and ensure that the general ledger is updated timeously with movements on the schedule.</p>	15, 85	Gift	May-Mari	Obtained the Investment register and the 2010/11 Management letter to identify if any challenges were encountered in addressing the completeness of Investments.	<p>Investment register and schedule of revenue from external investments needs to be updated for the 2010/11 and 2011/12 financial years to address the auditor findings.</p> <p>The external confirmations from the relevant financial institutions need to be obtained on the 30 June 2011 and the 30 June 2012.</p> <p>The management letter reported on investments being incomplete, and general ledger not being updated timeously regarding the movements on the register and schedule.</p>	<p>Update the Investment register/ schedule of revenue from external investments for the 2010/11 and 2011/12 financial years.</p> <p>Obtain the external confirmations for investment balances and finance income and agree information to the Investment Register and schedule of revenue on external investments for the 2010/11 and 2011/12 financial years.</p> <p>Ensure that the date per the register and schedule agrees to the system by suggesting journals for managements approval and capture for the 2010/11 and 2011/12 financial years.</p>	27-Jul-12
	Total Hours							
16	Revenue							



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16.1.1	<p>Revenue from exchange transactions</p> <p>Identify different categories of revenue from exchange transactions, e.g.:</p> <p>(i) Agency commission (vehicle licences administered on behalf of National Department of Transport)</p> <p>(ii) Rental revenue (building, halls, other facilities). Obtain contracts for rental income received and review calculations of straight-lining of rental income</p> <p>(iii) Service charges (water, electricity, refuse, sewerage and sanitation)</p> <p>(iv) Compare 2010/11 revenue from exchange transactions to the 2011/12 amounts, discuss material variances with management and document reasons for audit purposes. Also refer analytical review procedures performed items 16.4 - 16.5 below.</p> <p>Ag reported control weaknesses on transfer of properties.</p>	Ex 169	Gift Gwanya	Mmuso	<p>Refer to item 12.1 for work performed relating to consumer debtors.</p> <p>Discussed the different types of sundry revenue, including rental revenue, with management.</p>	<p>Vehicle licensing is not administered by the municipality. Management also did not identify any other sources of agency commission. Customers pay in advance for hall and stadium bookings. As a result there are no debtors which arise from the hiring of stadiums and municipal halls. Revenue on rental income will be covered under operating leases section.</p> <p>Control weaknesses on property transfers to be addressed going forward.</p>	<p>Perform analytical review, per category of revenue, by comparing the 2010/11 amounts to the 2011/12 amounts. Management to provide explanations on material differences identified.</p>	13/07/2012
16.1.1	<p>Revenue from exchange transactions</p> <p>Action.</p> <p>Obtain a copy of the electricity management contract between Mafube and Rural Maintenance (Pty) Ltd.</p> <p>Review the terms and discuss with management with specific emphasis on the following:</p> <p>i) duration of the contract</p> <p>ii) Impact on the electricity department of the municipality</p> <p>iii) Funds to be remitted to the municipality</p>		Gift Gwanya	Mmuso	<p>Reviewed contract between Electricity management contract between Mafube municipality and Rural Maintenance (Pty) Ltd</p>	<p>The distribution and management of electricity function has been transferred from the municipality to Rural Maintenance (Pty) Ltd</p> <p>The contract is for a duration of 25 years and is for the distribution of electricity, collection of revenue and maintenance & expansion of the network. The municipality will be paid a monthly royalty.</p> <p>All debtors and creditors before take over date remain the responsibility of the municipality</p> <p>The royalty of 1cent per kilowatt/hour will be paid to the municipality as from the takeover date (1 Feb 2012). The Integaretd Electrification Program grant (approx R8m per annum) will now be utilised by Rural for development programs.</p> <p>The electricity assets (tools, equipment & vehicles, existing network) will be taken over by Rural. The electricity network will be transferred back to the municipality if contract is not renewed in 25 years.</p> <p>Electricity department employees will be tranfered to Rural, however salary will continue to be paid by Mafube. Mafube will invoice Rural for the total electricity payroll cost excluding company contributions.</p>	<p>The municipality to perform a calculation of all its electricity debtors and creditors as at take over date.</p> <p>Review management plan on settlement and recovery of creditors and debtors.</p> <p>Ensure the contract/ arrangement with Rural is adequately disclosed in the financials for 2011/12.</p> <p>The contract appears to be lease. The arrangement does appear to be having an element of 'build and operate' arrangement.</p> <p>The municipality will recognise an asset representing its right to receive future lease payments from Rural Maintenance. Electricity assets will be derecognised by municipality.</p> <p>The contract will be reviewed by DPP</p>	30/06/2012



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16.1.3	<p>Revenue from non-exchange transactions</p> <p>For the government grant category of revenue from non-exchange transactions, prepare a lead schedule for Government grants (map trial balance accounts on CaseWare).</p> <p>Ensure lead schedules provide for sub-totals to support amounts in the notes to the AFS and well as a grand total agreeing to the amount per the Statement of Financial Performance and the system.</p>	193	Gift	Mmuso	None	N/A	<p>Prepare a lead schedule for Government grants (map trial balance accounts on CaseWare) by government grant category of revenue from non-exchange transactions.</p> <p>Ensure lead schedules provide for sub-totals to support amounts in the notes to the AFS and well as a grand total agreeing to the amount per the Statement of Financial Performance and the system.</p>	27-Jul-12
16.2	<p>Revenue from exchange transactions</p> <p>Action Calculate the amount received i.r.o prepaid electricity that should be recognised as a liability and reduce revenue by an equal amount.</p> <p>Background Determine the municipality's accounting policy i.r.o. prepaid electricity</p> <p>Prepaid electricity is normally recognised as revenue on the date it is purchased by the consumer. At year-end management should make a best estimate of the prepaid amount, i.e. amount already received in cash in respect of which the service must still be rendered.</p> <p>Note: In terms of prepaid electricity " electricity units" are purchased. With the significant increases in Eskom's tariffs a tendency has developed whereby a number of consumers buy a significant</p>		Gift Gwanya	Mmuso	Assessed the availability of information to calculate the unutilised portion (liability) of prepaid electricity sales at year-end.	<p>The prepaid electricity is sold from six sale points. The charges are then downloaded from contour system into e Venus. Per our discussion with management prior months reports can be extracted from the system for further analysis during the implementation phase in units and amounts.</p> <p>The municipality engaged Rural Maintenance which will be used as from 1 February 2012 to distribute electricity and collect receipts for the same. As such this will ensure that estimation errors on electricity by management is corrected going forward.</p>	<p>Obtain electronic copies of monthly prepaid electricity sales. Based on management's experience on how long it takes a consumer to purchase additional electricity, calculate provision of prepaid electricity for 2010/11.</p>	13/07/2012



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16.3	<p>Year-end cut off: water consumption In respect of water consumption determine if water readings are taken by the municipality or a contracted 3rd party.</p> <p>Further enquire on how a regular basis water meter readings are taken and when consumer are invoiced. Based on the answers to the aforesaid, determine if a cut off adjustment will be necessary for year-end purposes.</p> <p>Escalate challenges encountered to management to take corrective action.</p>		Gift Gwanya	Mmuso	Discussed with management.	The municipality performs water reading exercise internally. The readings are performed from the 1st to the 15th of each month.	Refer to item 12.5 for details pertaining to the pro-rata calculation of additional water revenue to be recognised in June each year.	13/07/2012
16.4	<p>Analytical review: Refuse removal For refuse removal, perform a reasonableness test by comparing total refuse removal revenue to the agreed number of refuse removal points x monthly refuse removal charge x number of months in current year under review.</p>		Gift Gwanya	Mmuso	Discussed with Revenue Supervisor.	<p>Number of refuse removal points will be provided to KPMG by the credit controller during the implementation phase.</p> <p>Approved refuse removal tariffs were provided by management.</p>	The analytical review will be performed during the implementation phase.	13/07/2012
16.5	<p>Analytical review: sewerage income Perform a reasonableness test for sewerage income by comparing, where applicable, the number of sewerage points against approved building plans x monthly sewerage charge x number of months in the current year under review.</p>		Gift Gwanya	Mmuso	Discussed with Revenue Supervisor.	<p>Number of refuse removal points will be provided to KPMG by the credit controller during the implementation phase.</p> <p>Approved refuse removal tariffs were provided by management.</p>	The analytical review will be performed during the implementation phase.	13/07/2012



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
16.6	<p>Revenue from non-exchange transactions</p> <p>Identify different categories of revenue from non-exchange transactions and prepare lead schedules (map trial balance accounts on Case Ware) for each category. Examples of revenue from exchange transactions are:</p> <ul style="list-style-type: none"> (i) Fines (ii) Government grants (iii) Licences and permits (iv) Property rates (v) Property rates - penalties imposed and collection charges <p>Ensure lead schedules provide for sub-totals to support amounts in the notes to the AFS and well as a grand total agreeing to the amount per the Statement of Financial Performance.</p>		Gift Gwanya	Mmuso	<p>Discussed revenue from non-exchange transactions with the Revenue Supervisor.</p> <p>Reviewed AFS for 2010/11</p>	<p>Fines are recognised by the municipality upon receipt from the traffic offenders.</p> <p>Grants will be covered under the infrastructure section</p> <p>Revenue from licences and permits will be extracted from the e-Venus system during implementation phase.</p> <p>The review of 2010/11 AFS show that the municipality does have an accounting policy for each of the above non-exchange transactions.</p>	<p>Use the Caseware generated lead schedules to perform an analytical review of revenue per category by comparing 2010/11 amounts to 2011/12 amounts. Investigate material differences and resolve appropriately and/ or record reasons for material variances on a working paper for audit purposes.</p>	13/07/2012
16.7	<p>Actions - Fine income</p> <p>(i) Calculate the additional amount to be recognised as fine income by the municipality.</p> <p>(ii) If this is applied for the first time in the 2012 year, ensure that a similar calculation is performed i.r.o the prior year (if regarded as being material).</p> <p>(iii) If management decides not to make any adjustment for AFS purposes, please document the reasons/ rationale.</p> <p>Background</p> <p>Determine the accounting policy i.r.o. fine income.</p> <p>Fine income is normally recognised on receipt of the money. Ensure a best estimate is made at year-end of fine income that the municipality anticipate to realise in respect of fines issued and recognise this as revenue in the current year. Ensure the accounting policy is updated accordingly.</p>		Gift Gwanya	Mmuso	<p>Reviewed AFS for 2010/11 to determine the accounting policy relating to traffic fine income.</p>	<p>Verified that the accounting policy in respect of traffic fine income is to recognise it as revenue when money is received.</p> <p>If the probability method were to be used to account for fines, this will be a change in accounting policy which needs to be applied retrospectively.</p>	<p>Discuss with management the change in accounting policy to recognise traffic fine revenue using the probability method instead of only recognising upon receipt of the money.</p> <p>Alternatively, given the expected immateriality of the adjustment, management may continue to recognise revenue on a receipt basis.</p>	13/07/2012



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
16.8	Property rates Analyse property rates received per the different categories of ratepayers. Examples are: (i) Commercial (ii) Housing schemes (iii) Industrial (iv) Residential (v) Municipal (vi) State (domestic) (vii) State (erven & schools)		Gift Gwanya	Mmuso	Discussed with management.	The consumer rates received does not show split of revenue according to the different type of consumer. Per discussions with management, such reports can be extracted from the system upon request at implementation phase.	Obtain revenue schedule per sub-category of consumers.	13/07/2012
16.9	Property rates Calculate revenue foregone/ schedule 1 rebate rates. The total of property rates received should be reduced by the calculated amount.		Gift Gwanya	Mmuso	Discussed with management.	The total amount of revenue foregone is reflected on the e Venus billing reports.	Ensure that revenue foregone is correctly mapped in Case Ware to ensure correct disclosure in the 2011/12 AFS. Recalculate percentage revenue foregone and compare it to the rebate rate per category. Discuss differences identified with management and document for audit purposes.	13/07/2012
16.10	Property rates Provide details in the note to the AFS with regards to the valuation roll value per category of ratepayer.		Gift Gwanya	Mmuso	Reviewed valuation roll.	Management is in a process of reconciling valuation roll with the property values per the e Venus billing system. No interim or supplementary valuations were performed during the year.	Review the reconciliation performed by management. Ensure that the property values disclosed in the 2011/12 AFS are based on approved valuation roll.	13/07/2012
16.11	Property rates Provide the following details in the note to the AFS: (i) How assessment rates are levied, e.g. on the value of land and improvements (ii) How regularly valuations are performed e.g. every 5 years (iii) How and when interim valuation are performed e.g. interim valuations are performed on an annual basis taking into account changes in individual property values due to alterations, consolidations and sub-division. (iv) details of the basis rebates are allowed and calculated. (v) Provide site valuation values, building valuation values and total valuation values per category of ratepayer.		Gift Gwanya	Mmuso	None	N/A	Collate necessary disclosure information during the implementation phase.	13/07/2012
16.12	Finance income Prepare a schedule of revenue from different sources distinguishing between interest income on: (i) Loans and receivables (ii) External investments e.g. interest income on bank deposits, interest income on unimpaired held-to-maturity investments		Gift Gwanya	Mmuso	Discussed with management.	The municipality charges interest at prime +1 on all the overdue accounts. Investment income is covered under the investments section.	Obtain a schedule from management showing interest charged on overdue consumer accounts per month for the whole year. Ensure that the interest income is reflected as such on the AFS.	13/07/2012



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
16.13	Finance income Review investment certificates on external investments obtained by management to confirm interest income earned for the current financial year. Check that details correspond to finance income schedule prepared above.		Gift Gwanya	Mmuso	None	Covered under the investments section	Obtain external confirmations of finance income and agree information to the Investment Register.	30-Jun-12
16.14	Dividend income (i) Prepare a schedule of dividend income from different sources, based on information obtained by management, noting the number of shares owned, interim and final dividend, LDR dates, dates paid, dividend amount payable. (ii) Compare current year dividend income to prior year dividend income to review the completeness of dividend income. Also enquire from management if any other shares were allocated to the municipality during the year.		Gift Gwanya	Mmuso	None	Covered under the investments section	Covered under the investments section	30-Jun-12
16.16	Other income Analyse sources/ categories of other income for disclosure in the notes to the AFS. Examples are: (i) Application fees for second dwelling (ii) Building plan fees (iii) Contributions received to capital projects (iv) Sale of erven (v) Sundry income		Gift Gwanya	Mmuso	None	This disclosure information will be collated during the implementation phase.	It is expected that the "Other Income" amounts to be included in the 2011/12 AFS is relatively immaterial. It is proposed that the work of the project team is limited to analytical review procedures. Use the Case Ware lead schedule to compare "Other Income", per line item, for 2010/11 to the 2011/12 amounts and investigate material differences.	13/07/2012
16.17	Revenue: Services and other Review the council resolution where the budget for the financial year was approved to ensure that the tariff structure for the year under review was approved by council in terms of Section 75A of the Municipal Systems Act		Gift Gwanya	Mmuso	Reviewed council minutes	The budget for the year was approved by the council. The minutes for the meeting have been obtained and filed.	No further work proposed	13/07/2012



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16.18	Revenue: Services and other (tariffs) Obtain a copy of the newspaper advert in respect of the approval of tariff and check that the following is contained therein : (i) that a resolution as contemplated in subsection (2) has been passed by the council; (ii) that a copy of the resolution is available for public inspection during office hours at the main administrative office of the municipality and at the other places specified in the notice; and (iii) the date on which the determination will come into operation (iv) Letter to the MEC of DPLG that the above notice has been published.		Gift Gwanya	Mmuso	Requested from management	Management provided advert on invitation for public participation on tabling of budget Management does not publish the approved tariffs.	The legal processes to be followed going forward. Discuss further with management on the implications of non-compliance in the current year and what specific measures will be taken going forward.	13/07/2012
16.19	Property values and rates (i) Obtain the approved valuation roll from management (ii) Obtain correspondence confirming that it is the final valuation roll (iii) Escalate challenges encountered to management to take corrective action.		Gift Gwanya	Mmuso	Obtained an electronic copy of the general valuation roll that is effective from 1 Jul 11.	Reviewed copy of valuation roll. Management is still performing reconciliation between property values per valuation and values per billing system.	Obtain copy of the reconciliation on property vales performed by management. Ensure that the property rates are accordingly adjusted for. Obtain and file the management calculations as support.	13/07/2012
16.20	Property values and rates (i) Review the rates reconciliation, performed by management, between the valuation roll and the rates that were levied. (ii) Escalate challenges encountered to management to take corrective action.		Gift Gwanya	Mmuso	Management still in process of performing the reconciliation. KPMG will review at implementation phase.	None.	refer to above	30-May-12
16.21	Valuer accreditation Obtain certificate / documents from management confirming the qualification / accreditation of the valuer responsible for the valuation roll		Gift Gwanya	Mmuso	Documents confirming the qualification/ accreditation of the valuer responsible to determine the valuation roll values not obtained on date of finalisation of report.	None.	Obtain the certificates from management at implementation phase.	30/06/2012



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16.22	<p>Manual receipt books</p> <p>Obtain register of manual receipt books issued from management and check that all receipt books have been accounted for.</p> <p>Escalate challenges encountered to management to take corrective action.</p>		Gift Gwanya	Mmuso	None	<p>No register is kept for the receipt books. The receipt books are used when the system is offline. As soon as it is back on line the cashiers update the system with the information recorded in the manual receipt books.</p>	<p>A receipt book register should in future be maintained for manual receipt books indicating when and to whom the receipt books were issued to.</p> <p>Obtain details of manual receipt books used at the different pay points during the 2011/12 financial year and prepare a summary schedule for audit purposes.</p> <p>The summary should include first and last receipt number used during the 2011/12 financial year, the amounts received, the e Venus replacement receipt number and the daily e Venus cash-up summary used to account for these receipts.</p> <p>Verify that the receipt books issued during the year were issued sequentially.</p>	30/06/2012
16.23	<p>Amounts paid to Department of Transport</p> <p>(i) Obtain monthly NATIS reports from management that reflect the amount paid over to the Department of Transport and the amount retained by the municipality as admin fee / commission.</p> <p>(ii) Obtain Register of traffic fine books issued from management and together with the NATIS reports determine if an adjustment is necessary for year-end purposes in terms of the traffic fine income to recognise in the financial statements.</p>		Gift Gwanya	Mmuso	Discussed with management.	<p>The municipality does not administer vehicle licences on behalf of the Department of Transport. Accounting policy is to recognise fines on a cash basis.</p>	None	30-May-12
16.24	<p>Debits on income votes</p> <p>Check debits on income votes and investigate the reasons for this. Pay specific attention to cheque numbers recorded against income votes.</p> <p>Escalate challenges encountered to management to take corrective action.</p>		Gift Gwanya	Mmuso	To be done at implementation phase.	N/A	<p>Check debits on income votes and investigate the reasons for this. Pay specific attention to cheque numbers recorded against income votes.</p> <p>Escalate challenges encountered to management to take corrective action.</p>	13/07/2012



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16.25	Gains/ losses on disposal of PPE Calculate gains and losses on the disposal of PPE. Check that gains are not included in revenue.		Gift	Mmuso	Discussed with management and inspected the 2010/11 AFS and Management letter to identify if a report containing the following per disposing asset was compiled: Disposal date/ Total cost of disposal asset/ Accumulated depreciation per disposing asset/ Current value/ Selling price and VAT, for 10/11, and for 11/12.	Per discussion with management, no disposal of assets occurred during the 2010/11 financial year ,therefore no gain or losses on disposal of assets were calculated and reported on. Management indicated that assets might be disposed of after the identification of assets to be sold in the compilation of the new/ updated asset register.	In the event of the disposal of assets, compile report containing the following per disposing asset was compiled: Disposal date/ Total cost of disposal asset/ Accumulated depreciation per disposing asset/ Current value/ Selling price and VAT, for 10/11, and for 11/12.	27-Jul-12
	Total hours							
17	Employee benefits							
17.1	Employee costs (i) Obtain copies of monthly general ledger payroll reconciliation prepared by management, review and obtain explanations for differences. (ii) Review the following reports compiled and/ or documentation sourced by management: (a) EMP01 submitted to SARS (b) IRP 5 Reconciliation (c) Analysis of third party payments and garnishees (d) Analysis of third party payments and garnishees (e) Agreement of all allowances and acting allowance to supporting documentation and contracts (f) Letter from the local bargaining forum that approves general salary increases (g) Written Human Resource policies (incl. a policy on overtime) (h) A list of all vacancies and the vacancy rate (i) A list of all appointments and terminations during the year (j) Schedule of remuneration paid to key management (k) Support for performance	Ex 61, Ex 58	Gift Gwanya, Nonyana, Bongani Sigasa (HR)	Palesa	Discussed with management and reviewed reconciliations prepared with payroll Management to follow up with the previous service provider and obtained working paper file for the 2010/11 AFS.	i) Obtained copies of reconciliations: a) The reconciliations have been prepared up to Dec 2011 b) Reconciliation for July, August & September have been combined. c) The interface between Venus system and VIP system is not properly aligned to an extent that balances are posted to a suspense account. This according to management is attributed to some accounts in Venus which are not "activated". Management has however managed to trace all the salary costs to the general ledger (suspense accounts). ii) a) Browsed through the file which is available for review at the payroll section b) available at payroll for review c) - d) to be done at implementation as part of the review of payroll reconciliations. e) The payroll clerk keeps a file for all the changes on the payroll with relevant supporting documentation. f) received from payroll and filed. g) Obtained and filed h) to be obtained at implementation phase i) Obtained and filed j) 12 month reports for each section 57 manager to be obtained from payroll during the implementation phase. k) Per discussions with management no performance bonus has been paid or is anticipated to be paid. there is a performance bonus policy and framework, however these have not yet been implemented.	(i) Management to liaise with E Venus to activate the inactive salaries GL accounts (ii) Transfer all the misposts from suspense accounts to the correct GL accounts. (iii) perform a payroll reconciliation at year end and ensure the reconciling items are reasonable. (iv) KPMG to review the reconciliation Management to obtain working paper file for 2010/11 AFS, otherwise comparatives to be adjusted accordingly. Obtain all the monthly payroll summaries from 30 June 2009 and perform reconciliation with the GL. This will ensure that all the differences identified by the AG between payroll and AFS are identified and rectified. Management to ensure reconciliations are performed and reviewed on a monthly basis going forward.	20/07/2012



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17.2	<p>Short term employee benefits (I) Check that short term employee benefits like staff leave and performance bonuses are disclosed in the AFS under "Employee benefits" and not as "Accruals" or "Provisions".</p> <p>Leave pay accrual and bonus provisions (ii) Per the 2010/11 management letter, the AG indicated that the leave pay accrual and bonus provisions were disclosed as provision and accrual. Confirm the factual situation and ensure the mapping in caseware is amended accordingly to rectify the reported anomaly.</p>	Ex 224	Gift Gwanya	Palesa	Reviewed management report and financial statements for the year ended 30 June 2011.	The staff leave and bonus provision were classified incorrectly and not under employee benefits.	Prior year financials will be restated to rectify the anomaly. The caseware mapping will be amended by KPMG to ensure that the leave accrual and bonus provision are accurately aligned to employee benefits.	20/07/2012
17.4.1	<p>Employee costs (i) Identify in discussions with the HR Department the Section 57 employees of the municipality.</p> <p>Examples of (possible) Section 57 appointments are:</p> <ul style="list-style-type: none"> - Municipal Manager - Chief Financial Officer - Assistant Municipal Manager (if applicable) - Executive Director: Corporate Services - Executive Director: Community Services - Executive Director: Planning & Housing - Executive Director: Environmental Affairs - Executive Director: Civil Engineering Services - Executive Director: Electro-Technical Services <p>(ii) Analyse/ disclose in the AFS the remuneration paid to Section 57 employees analysed per type for remuneration, e.g.:</p> <ul style="list-style-type: none"> - Annual remuneration - Car allowance - Contributions to UIF, Medical and Pension Funds 		Bongani Sigasa	Palesa	<p>Discussed with Human Resources Manager</p> <p>To be done at implementation phase</p>	<p>The municipality has the following appointed and acting section 57 Managers:</p> <ul style="list-style-type: none"> -Municipal Manager (DI Radebe) -Acting CFO (NN Molefe) -Acting Corporate Services SM Malindi -Community Services ZE Mofokeng -Town Planning & Economic Development (NE Radebe) -Infrastructure Services (vacant) 	<p>At implementation we need to ensure accuracy of disclosure of information on section 57 managers.</p> <p>Ensure the general ledger is reconciled to the 12 month report for the councillors.</p>	20/07/2012



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17.4.2	<p>Salaries and allowances</p> <p>(i) Obtain a salary creditors listing from management.</p> <p>(ii) Penalties for late payment to SARS were not disclosed as fruitless and wasteful expenditure. It was reported that the VIP system is overstating PAYE</p> <p>(iii) The AG reported overpayments on salaries of R139 333 plus R43 056.83.</p> <p>(iv) The AG reported an overstatement of R3 633.34 on allowances</p>	Ex 64, Ex 66, Ex 211, Ex 163, Ex 185	Nonyana Pule (Payroll)	Palesa	To be completed at implementation phase. The global payroll reconciliation will highlight all the outstanding payroll creditors. Discussed with management	<p>Management yet to populate the fruitless and wasteful expenditure register for 2011/12</p> <p>Prior year balances to be restated</p>	<p>Prior year fruitless and wasteful expenditure to be restated to ensure the penalties and over payments on overtime are disclosed as such.</p> <p>The VIP consultant to be consulted on the system errors on PAYE calculations and system to be rectified retrospectively for the year.</p> <p>Overstated allowance of R3 633.34 to be included in prior year fruitless and wasteful expenditure register.</p>	20/07/2012
17.5	<p>Salary expense analytical review</p> <p>Perform analytical review of salary expense on a monthly basis for the current & prior financial year & obtain explanations for material variances. Prepare working paper for audit purposes.</p>		Gift Gwanya (Financial Accountant)	Palesa	To be performed at implementation phase			20/07/2012
17.5.2	<p>PAYE/ UIF/ SDL</p> <p>(i) In comparing the PAYE deducted per the payroll reports to the amounts declared to SARS, the AG reported variances/differences.</p> <p>(ii) Further variances between the UIF and SDL amounts per the payroll reports and amounts declared to SARS.</p> <p>(iii) Investigate and document reasons for these material variances.</p> <p>(iv) Escalate to management to take the necessary corrective action. If required, process the necessary correcting journal entries.</p> <p>(v) If required, process the necessary correcting journal entries</p>	Ex 63, Ex 65, Ex 67, Ex 7, Ex 71	Gift Gwanya (Financial Accountant)	Palesa	Discussed with management	<p>As per our discussions with management, the council made an arrangement with SARS to set off monthly PAYE against net VAT input that the municipality is suppose to claim. There is however no support documentation for the agreement, nor is there any documentation to show total amounts that have been settled through this arrangement.</p> <p>Medical statements are not reconciled to the general ledger.</p>	<p>Management to obtain written agreement from SARS on the current arrangement and also obtain schedule showing list of all the amounts that have been set off during the year. Management to perform reconciliation of such schedule to payroll summaries. Ensure where necessary, correcting journals are prepared, authorised and posted.</p> <p>Statement of account to be requested as at 30 June 2011 & 30 June 2012 for PAYE, UIF & SDL</p> <p>Management to perform reconciliation between medical statements as at 30 June 2011 & 30 June 2012 and the general ledger balance. Any necessary adjustments should be journalised & prior year AFS restated.</p>	20/07/2012
17.5.4	<p>Obtain an understanding on authorisation of overtime authorisation and payments</p>	Ex 163	Nonyana Pule (Payroll)	Palesa	Discussed with management (Payroll)	All overtime paid was authorised prior to payment and supporting documents are available at payroll for audit purposes.	All the documents relating to overtime are available at payroll for review.	20/07/2012



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17.7	Remuneration of Councillors Analyse and disclose in the AFS the remuneration paid to Councillors. Examples are: <ul style="list-style-type: none"> - Executive Mayor - Deputy Executive Mayor - Speaker - Mayoral Committee Members - Councillors - Councillors contribution to Pension Funds - Travelling expenses - Cellphone expenses - Councillors contributions to Medical Aid - Other in-kind benefits 		Gift Gwanya (Financial Accountant)	Palesa	Obtained 12 months reports Discussed with management	The councillors remuneration is posted into the following ledger accounts:	The 12 months report will be used to verify accuracy of classification of councillors remuneration on the disclosure note. Perform reconciliation of the 12 month report to the general ledger for councillors.	20/07/2012
17.8	Multi-employer defined benefit plans (i) Identify in discussions with management multi-employer defined benefit plans. These plan may be accounted for as defined contribution plans. Also refer to item 3.3 above. (ii) Disclose in the AFS: <ul style="list-style-type: none"> - Details of the different multi-employer defined benefit plans - On how a regular basis actuarial valuations are performed - The total expense recognised in the Statement of Financial Performance (Income Statement) (iii) In respect of each multi-employer defined benefit plan also disclose the following: <ul style="list-style-type: none"> - Contribution rate payable by members - Contribution rate payable by the Council - The year the last actuarial valuation was performed - The actuarial surplus (if 			Palesa	None			03-Aug-12
	Total hours							
18	Expenditure (excluding employee benefits)							



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18.1	Budgets Check that adjustment budget figures have been taken into account when determining the budgeted amounts for the year to compare actual and budgeted amounts. Obtain minutes of the Council resolution adopting the Adjustment Budget.	Ex.178 Ex.161	Dini Nomayeza	Palesa	Discussion with management	Obtained 2010/11 adjustment budget and the 20/12 budgets from management.	Confirm with management and Provincial Treasury if this was the final budgets and if a adjustment budget were submitted in the 2012 financial period and ensure that budgeted amounts for the year were updated with the amounts per the adjustment budget. Bring it under management intention that there are certain deadlines for submitting budgetary information as per the MFMA act. Refer to Ex161 for more detail	20-Jul-12
18.1	Grants and subsidies paid Analyse grants and subsidies paid and disclose in the notes to the AFS. Also provide in the notes the necessary details (write up) explaining each grant and subsidy paid.		Gift	Palesa	Inspected that 10/11 AFS, and discussed with management to identify if the following was complied: (i) the grants/ subsidies paid register, and (ii) a write up explaining each grant and subsidy paid.	Per Inspection of the 10/11 AFS, and discussion with management it was noted that no grants and subsidies were paid during the 10/11 and the 11/12 financial periods (up to date of assessment).	If grants and subsidies gets paid, analyse and disclose it in the notes to the AFS. Provide a summary of the relevant grants and subsidies paid for audit purposes.	27-Jul-12
18.2	Budget vs Actual (i) Determine if budgets have been prepared on GRAP principles or if a reconciliation/ adjustment will be required for AFS purposes when comparing actual amounts to budgeted amounts. (ii) Assist management with the reconciliation between budgeted amounts (non-GRAP) and actual amounts (GRAP compliant).	Ex.178	Dini Nomayeza	Palesa	Discussion with management	Managment anticipated that the budgets may not be GRAP compliant.	Inspect the budget to confirm if the budget were prepared on GRAP standards. Calculate the adjustments to the budgeted amounts that will be required in order to perform a proper comparison of actual and budgeted amounts in the AFS. Alternatively confirm that it is not possible to calculate the adjustments to the budgeted amounts.	20-Jul-12
18.2	Impairment of cash generating assets (i) Discuss possible impairment with management with reference to impairment indicators from external and internal sources. (ii) Compare carrying amounts to recoverable amounts and recognise impairment losses where carrying amounts exceed the recoverable amounts. (iii) Review the impairment of cash-generating assets.		Gift	Palesa	None	N/A	A consulting engineering firm will be compiling an infrastructure asset register at 30 Jun 08. Replacement values as well as standard and remaining useful lives will be assigned to all infrastructure assets at this date. It is assumed that any impairment at this date will be reflected in the remaining useful lives assigned to infrastructure assets. Discuss with management any possible impairment of infrastructure assets between 1 Jul 08 and 30 Jun 12 with reference to the impairment indicators.	27-Jul-12
18.3	Budget vs Actual Obtain explanations for material variances between actual and budgeted amounts.	Ex.178	Dini Nomayeza	Palesa	None	This exercise will be performed once the trial balance for the financial year has been finalised.	Obtain, in discussion with management, explanations for material variances between actual and budgeted amounts.	20-Jul-12



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18.3	<p>Impairment of non-cash generating assets Non-cash-generating assets are specialised in nature and the municipality would normally not be able to sell such assets.</p> <p>The recoverable service amounts of such items should be compared to their carrying amounts (book values) to determine if any impairment would be necessary.</p>		Gift	Palesa	None	N/A	Refer to the impairment of cash generating assets above. Identify non-cash generating assets in discussion with management and consider the possible impairment thereof.	27-Jul-12
18.4	<p>Contracted services Identify trial balance accounts representing "Contracted services" and agree to the Contracts Register.</p> <p>Escalate challenges encountered to management to take corrective action.</p>	Ex.38	Linda Tshablala	Palesa	Discussion with management	<p>During the assessment phase we were unable to obtain a file with all service level agreements (SLA).</p> <p>Linda indicated that the SLA of the prior years are still with the previous consultants and they cannot get a hold of them.</p> <p>Linda confirmed that he will compile a list of all the awarded agreements during the 2011/12 financial period.</p> <p>The completeness thereof will also be assessed during the implementation phase with reference to the general ledger account for "Contracted Services".</p>	<p>Obtain the list of all SLA's from Linda and follow up on the progress of obtaining the prior year SLA's from the previous consultants.</p> <p>Compile a Contracts Register which will incorporate a tender reference number. This will provide for an audit trail between the Contracts Register and Tender Register.</p> <p>Agree details of suppliers per the general ledger account for "Contracted Services" to the Contracts Register to identify missing service level agreements.</p>	
18.5	<p>Supply Chain Management Put a copy of the municipality's SCM policy on file. It is management responsibility to ensure that the SCM policy is followed and that the required quotations etc is obtained.</p>	Ex.187, Ex. 188, Ex.189, Ex.200, Ex.30	Linda Tshablala	N/A	Discussion with management	We obtained a copy of the SCM policy and filed in the policy file.	<p>The SCM policy was obtained and filed in the policy file.</p> <p>It is management responsibility to ensure that the SCM policy is followed and that the required quotations etc is obtained.</p> <p>Management should also ensure that the supporting information is provided to the AG within the required timeframe</p>	N/A
18.6	<p>Supporting documentation not provided to the AG. It is management responsibility to ensure that the supporting documentation is provided to the AG within the required timeframe.</p>	Ex 179, Ex.180, Ex.181, Ex.182, Ex 204, Ex.53, Ex. 84, Ex 212, Ex.38	Various employees	N/A	N/A - This will be performed by Mafube management	N/A - This will be performed by Mafube management	<p>It is management responsibility to ensure that the supporting documentation is provided to the AG within the required timeframe.</p> <p>These exceptions should be investigated by management and supporting documentation should be made available to the AG when they come and audit opening balances.</p> <p>Specific attention should be provided to Ex.121 to investigate the reason for the overpayment and to provide support to the AG.</p>	N/A
18.7	<p>Providers of goods and services Obtain and review the list of approved / accredited providers of goods and services.</p> <p>Escalate challenges encountered to management to take corrective action.</p>	Ex. 189	Linda Tshablala	Palesa	Discussion with management	<p>We were unable to obtain a list of approved providers.</p> <p>Linda indicated that there are something wrong with their database for some time now and they are unable to log in to extract such a report.</p> <p>Currently they have a paper file of approved suppliers, but he indicated that they do not only use those suppliers but need to use other suppliers that were not approved.</p> <p>Some examples of the suppliers used are VKB, Total garage and Frankfort petroleum.</p>	<p>A list of all approved vendors should be prepared which should incorporate the following information: Vendor name, approval process followed, category of services to be provided to Mafube.</p> <p>Alternatively select material payments from the cash book that are not supported by a contract or service level agreement. Discuss the specific instances with management and endeavour to obtain relevant supporting documentation from the service provider/ supplier. Also refer to the Tender Register below and the follow up on missing documentation.</p>	27-Apr-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
18.8	<p>Tenders</p> <p>Obtain from management, the Tender Register with all tenders awarded during the year, a register of all formal written price quotations accepted and a register of all instances where municipality have deviated from the normal procurement procedures.</p> <p>Review Tender Register and escalate challenges encountered to management to take corrective action.</p>	Ex.39	Linda Tshablala	Palesa	Discussion with management	<p>There are no formal tender register. Linda indicated that he will compile a list of all tenders awarded during the year.</p> <p>Linda indicated that there are a few instances where the municipality deviated from the normal procedures. He have the detail with him and will compile a list with supporting documentation and reasons for the deviation. We have not received anything during the implementation phase.</p>	<p>Assist management to compile a Tender Register based on the minutes of the Tender Evaluation Committee. Compare tenders listed to the advertisements placed by Mafube</p> <p>The Tender Register should include a description of the services or products to be provided, the entities responding to the tender together with the tender amounts and the entity to whom the contract was awarded. The Contracts Register reference number should also be recorded in the Tender Register. This will provide an audit trail between the Tender and Contract Registers.</p> <p>Scrutinise the Excel cash book for material payments not reflected in the Tender Register (excluding bulk water & electricity purchases).</p> <p>Compile a list of instances where only written quotations were obtained and ensure that this is in line with Mafube's Supply Chain Management Policy.</p> <p>Follow up with Linda on the list of all instances where Mafube deviated from its normal procurement policy.</p> <p>Obtain a copy of the attendance registers</p>	18-May-12
18.9	<p>Other/ general expenses</p> <p>Assist management with the analysis of key expenditure.</p>			Palesa	N/A - This will be done on the implementation phase.	N/A	<p>Use the CaseWare lead schedules to perform an analytical review of expenses and obtain explanations for material variances between the different financial years.</p> <p>For all new accounts, document the nature of the account to ensure that it is appropriately mapped in case ware</p>	20-Jul-12
18.10	<p>Leases</p> <p>Obtain from management the lease agreements supporting the lease expenditure.</p> <p>Compare lease expenditure to the lease agreement list/ register and investigate material differences.</p> <p>Confirm that the required number of payments were recorded through inspection of the contract date etc and where not ensure that a accrual is raised.</p> <p>Escalate challenges encountered to management to take corrective action.</p>	Ex. 216 Ex.169		Palesa	Refer to lease section on work performed on assessment phase	Refer to the lease section above for the process to be followed to confirm the completeness of lease expenses with reference to the cash book and list of debit orders.	<p>Refer to the lease section for the lease contract and calculations to be performed</p> <p>Compare lease expenditure to the lease agreement list/ register and investigate material differences.</p> <p>Confirm that the required number of payments were recorded on the GL through inspection of the contract date etc and where not all payments were recorded, ensure that a accrual is raised.</p> <p>Escalate challenges encountered to management to take corrective action.</p>	13-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
18.11	Legal expenses Obtain details from management in respect of legal expenses.			Palesa	Discussion with management	We were unable to arrange a meeting with the compliance manager during the assessment phase.	An analysis of legal expenses incurred during the 2010/11 and 2011/12 financial years should be compiled to identify possible provisions and/ or contingent liabilities that should be disclosed in the AFS - refer to contingent liability section above. Scrutinise the general ledger for this purpose. Confirm if all legal expenses identified through legal confirmations were recorded in the GL. Obtain supporting documentation for material amounts.	20-Jul-12
18.12	Maintenance (i) Scrutinise the maintenance account and identify items that should be capitalised. (ii) Propose journal entries for management's consideration and approval.			Palesa	N/A - This will be done on the implementation phase.	This exercise will be performed during the execution phase	Scrutinise the general ledger accounts for repairs and maintenance to identify possible items that should have been capitalised. Select a sample of items and trace to supporting documentation to verify the correct classification of such items.	20-Jul-12
18.13	Audit fees Agree audit fee provision to supporting documentation, identify if fees should be stated as provision or accrual according to GRAP statements			Palesa	Discussion with management	Management indicated that the auditors will only start after year end, somewhere in August, but may look at opening balances in May. The estimated Audit fee is between R2.5 and 2.8 million.	An accrual should be made in respect of audit fees for services rendered during the financial year. Confirm with the Office of the Auditor-General the outstanding audit fee amount at 30 Jun 12. Calculate the amount to be accrued for audit fees at 30 Jun 12. A similar approach will be followed for the comparative amount for audit fees.	20-Jul-12
18.14	Expenditure votes Check credits on expenditure votes and investigate the reasons for this. Pay specific attention to receipt numbers recorded against expenditure votes.			Palesa	N/A - This will be done on the implementation phase.	N/A	Use the GL / TB to identify credits posted to expense accounts. Prepare a working paper of material amounts and investigate the reasons for the credits and document for audit purposes.	20-Jul-12
18.15	Finance costs Assist management with the analysis of finance costs. Escalate challenges encountered to management to take corrective action.		Maeshwane Tsotetsi	Palesa	N/A - This will be done on the implementation phase.	N/A	Analyse finance cost based on bank statements/ cash book and/ or analyse the general ledger account for finance cost. Agree finance costs to loan confirmations (to be included when external confirmations are requested from the relevant third parties) Agree finance costs incurred in respect of loans and leases to the Loans Register and Leases Register respectively.	20-Jul-12
18.16	Depreciation and amortisation Agree calculated depreciation to fixed asset register, amortisation to the schedule/ register for intangible assets and impairments to supporting documentation and calculations.		Gift Gaya	Palesa	Inspected FAR and AFS.	Depreciation needs to be calculated. Refer to Fixed assets where this will be performed.	Movable assets: Accurately reperform the depreciation calculations and assess the reasonableness thereof, and adjust the 10/11 and the 11/12 GL and AFS accordingly for movable and immovable assets. Immovable assets: Inspect calculations performed by Vella.	N/A - this is performed during the procedures on fixed assets.
18.17	Penalties incurred Agree calculations to supporting documentation, ensure correct disclosure and treatment of penalties incurred. Also refer to section on fruitless and wasteful expenditure.		Maeshwane Tsotetsi	Palesa	N/A - This will be done on the implementation phase.	N/A	Inspect cash book and final trial balance for penalties incurred. Trace material amounts to supporting documentation. Also refer to section on fruitless and wasteful expenditure.	20-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
18.18	VAT claimed on insufficient invoices.	Ex.43	Maleshwane Tsotetsi	Palesa	N/A - This will be done on the implementation phase.	N/A	KPMG to provide guidance to management on the regulations from SARS to determine what should be present on the invoice before VAT can be claimed. Mafube management to inspect on a sample basis that VAT is only claimed where it should be.	30-May-12
	Total hours							
	Total hours							
19	Financial instrument analysis							
19.1	Classification Provide the following information relating to financial instruments: (i) Classification of financial assets, e.g.: - Loans and receivables (non-current receivables, - Trade receivables distinguishing between trade - Receivables from exchange and non-exchange transactions) - Other receivables - Cash and cash equivalents (ii) Classification of financial liabilities, e.g.: - Long-term liabilities - Employee benefits - Consumer deposits - Trade and other payables			All	None	N/A	The proposed solution will be considered when drafting the 2011/12 AFS	27-Jul-12
19.2	Disclosure (i) Disclose how the fair values of financial assets and financial liabilities are determined. (ii) Disclose carrying values & fair values of the different categories of financial assets & financial liabilities			All	None	N/A	The proposed solution will be considered when drafting the 2011/12 AFS	27-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
19.3	Disclosure Disclose the following in respect of risk management: (i) Capital risk management (ii) Financial risk management objectives (iii) Significant accounting policies (iv) Market risk exposure per the following component thereof: - Foreign currency risk - Fair value interest rate risk - Price risk (v) Interest rate risk			All	None	N/A	The proposed solution will be considered when drafting the 2011/12 AFS	27-Jul-12
19.4	Effective interest rate disclosure Prepare a schedule to disclose the effective interest rate of income-earning financial assets and the period in which they mature per the following periods: - 6 months or less - 6 - 12 months - 1 - 2 years - 2 - 5 years - More than 5 years - Total amount			All	None	N/A	The proposed solution will be considered when drafting the 2011/12 AFS	27-Jul-12
19.5	Fair value sensitivity analysis for fixed rate instruments Calculate the impact of a change (increase and decrease) of 100 basis points on the net assets of the municipality.			All	None	N/A	The proposed solution will be considered when drafting the 2011/12 AFS	27-Jul-12
19.6	Sensitivity analysis - equity price risk If applicable, provide a sensitivity analysis of the municipality to equity price risk.			All	None	N/A	The proposed solution will be considered when drafting the 2011/12 AFS	27-Jul-12
19.7	Liquidity risk management (i) Describe how the municipality manages liquidity risk (ii) Prepare a schedule to indicate the effective interest rate of financial liabilities, the carrying amount of the financial liability and the contractual cash flow associated therewith per the following periods: - 6 months or less - 6 - 12 months - 1 - 2 years - 2 - 5 years - More than 5 years - Total amount			All	None	N/A	The proposed solution will be considered when drafting the 2011/12 AFS	27-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
19.8	Credit risk management (i) Describe how the municipality is managing credit risk. (ii) Prepare a schedule to disclose the maximum credit and interest risk exposure for the respective financial instruments.			All	None	N/A	The proposed solution will be considered when drafting the 2011/12 AFS	27-Jul-12
	Total hours							
20	Additional MFMA disclosures							
20.1	Information to be disclosed in AFS Disclose the following information in the AFS: (i) Contributions to organised local government - SALGA (ii) Audit fees (iii) VAT (iv) PAYE & UIF (v) Pension and medical aid deductions Analyse the above amounts as follows: - Opening balance - Current year subscription/ fee - Amount paid - current year - Closing balance		Gift	Werner	Inspected the 2010/11 AFS to verify the disclosure and analysis of the following information in the AFS: (i) Contributions to organised local government - SALGA (ii) Audit fees (iii) VAT (iv) PAYE & UIF (v) Pension and medical aid deductions	Disclosure and analysis of the following information were noted in the 2010/11 AFS: (i) Audit fees (ii) VAT (iii) PAYE & UIF (iv) Pension and medical aid deductions Above mentioned disclosure and analysis into the 2011/12 AFS needs to be performed. Disclosure and analysis of contributions to organised local government - SALGA needs to be performed for the 2010/11 and 2011/12 financial years.	Compile/ obtain documentation detailing with the following items for disclosure purposes in the 2010/11 and the 2011/12 AFS: (i) Contributions to organised local government - SALGA (ii) Audit fees (iii) VAT (iv) PAYE & UIF (v) Pension and medical aid deductions Agree above mentioned details to the cashbook and other supporting documentation.	27-Jul-12
20.2	Councillors' arrear consumer accounts Obtain information from management and compile a list of councillor arrear consumer accounts at year-end that have been outstanding for more than 90 days		Gift	Werner	Please refer to the Receivables section for work performed in the assessment phase.	Please refer to the Receivables section for findings/ issues encountered in the assessment phase.	Please refer to the Receivables section for proposed solution in the assessment phase.	27-Jul-12
20.2	(i) Councillors' arrear consumer accounts Obtain information from management and compile a list of councillor arrear consumer accounts at year-end (30 June 2012) that have been outstanding for more than 90 days. (ii) Overpayments of councillors The AG reported an overpayment of councillors over the last four years.	Ex 196	Gift Gwanya	Werner	To be done at implementation Reviewed management letter	i) The list of councillor arrear consumer accounts that have been outstanding for more than 90 days still needs to be compiled. The list will be provided to KPMG during the implementation phase. ii) Councillors have been overpaid by a total of R 2 204 926.79 over the past 4 years. Opening balances to be adjusted and the respective councillors will be raised as debtors.	i) Obtain list of councillors and obtain the status of each councillor per the billing system at 30 June 2012. Compile a list of councillor arrear consumer accounts that have been outstanding for more than 90 days. Ensure the list shows amounts outstanding for less than 90 days & amounts outstanding for more than 90 days. ii) Management to raise the respective councillors as debtors, a provision will have to be made in full since it may be difficult to recover the monies especially for those councillors who have since been voted out of office.	20/07/2012



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
20.3	<p>Non-compliance with chapter 11 of the MFMA</p> <p>Review items identified by management as being in non-compliance with the Supply Chain Management Policy of the Municipality.</p> <p>Deviations from the Supply Chain Management policy normally needs to be condoned by the Municipal Manager and noted by the Council.</p> <p>Review the list prepared by management and check that the following details i.r.o supply chain management deviations have been recorded:</p> <p>(i) Details of the incident (ii) To whom the contract was awarded (iii) Date it was awarded (iv) Reasons for deviating from the SCM Policy (v) Who approved the deviation and position of the person (vi) Amount incurred (excluding VAT)</p>		Gift	Werner	<p>Obtained and inspected the Supply Chain Management Policy of the Municipality</p> <p>Discussed with management to identify if the list of items identified as being in non compliance with the Supply Chain Management Policy was compiled.</p>	<p>The list of items identified as being in non compliance with the Supply Chain Management Policy still needs to be compiled.</p> <p>No GAP Analysis has been performed.</p>	<p>Obtain the list of items identified as being in non compliance with management.</p> <p>Perform GAP Analysis on the list prepared by management and check that the following details i.r.o supply chain management deviations have been recorded:</p> <p>(i) Details of the incident (ii) To whom the contract was awarded (iii) Date it was awarded (iv) Reasons for deviating from the SCM Policy (v) Who approved the deviation and position of the person (vi) Amount incurred (excluding VAT)</p>	27-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
20.4	<p>Unauthorised expenditure</p> <p>(i) Determine, in discussion with management, if the municipality incurred any unauthorised expenditure. Check if capital & operating over expenditure/ excesses have been reported to Council , budget reallocations have been identified and approved by Council.</p> <p>(ii) Scrutinise the Agenda of Council Meetings to identify any possible unauthorised expenditure.</p> <p>MFMA definition Refer to the definitions of the MFMA for examples of "unauthorised expenditure". Examples are: - Overspending of the total amount appropriated in the municipality's approved budget - Overspending of the total amount appropriated for a vote in the approved budget or - Expenditure from a vote unrelated to the department or functional area covered by the vote; - Expenditure of money appropriated for a specific purpose</p>	121	Gift	Werner	Discussed with management to identify if a schedule of unauthorised expenditure was compiled.	A schedule of unauthorised expenditure still needs to be compiled.	<p>Determine, in discussion with management, if the municipality incurred any unauthorised expenditure.</p> <p>Check if capital & operating over expenditure/ excesses have been reported to Council, and the budget reallocations being identified and approved by Council.</p> <p>Compare the actual to the budgeted expenditure and review the differences in expenditure.</p>	27-Jul-12
20.5	<p>Fruitless and wasteful expenditure</p> <p>(i) Determine, in discussion with management, if the municipality incurred any fruitless and wasteful expenditure and disclose such items in the financial statements.</p> <p>(ii) Scrutinise the Agenda of Council Meetings to identify any possible fruitless & wasteful expenditure.</p> <p>(iii) Prepare a list of fruitless and wasteful expenditure still to be approved by Council.</p> <p>MFMA definition "Fruitless and wasteful expenditure" is defined as expenditure that was made in vain and could have been avoided was reasonable care exercised.</p>	121	Gift	Werner	Discussed with management to determine if a list of all fruitless and wasteful expenditure was compiled.	The list of fruitless and wasteful expenditure still needs to be compiled.	<p>Determine, in discussion with management, if the municipality incurred any fruitless and wasteful expenditure and disclose such items in the financial statements.</p> <p>Scrutinise the Agenda of Council Meetings to identify any possible fruitless & wasteful expenditure.</p> <p>Prepare a list of fruitless and wasteful expenditure still to be approved by Council.</p>	27-Jul-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
20.6	Irregular expenditure (i) Determine, in discussion with management, if the municipality incurred any irregular expenditure. (ii) Scrutinise the Agenda of Council Meetings to identify any possible irregular expenditure. (iii) Prepare a list of irregular expenditure still to be approved by Council. MFMA definition Refer to the definitions in the MFMA for examples of "Irregular expenditure". Examples are: - Expenditure incurred not in accordance with the requirements of the MFMA - Expenditure incurred in contravention of the Municipal System Act - Expenditure incurred not in accordance with a requirement of the Public Office-Bearers Act, 1998 (Act 30 No. 20 of 1998); or - Expenditure incurred that is not in accordance with a requirement of the supply chain management policy of the municipality or any of	121	Gift	Werner	Discussed with management to determine if a list of all irregular expenditure was compiled.	The list of irregular expenditure still needs to be identified and compiled.	Scrutinise the Agenda of Council Meetings to identify any possible unauthorised expenditure, and compile a list of all unauthorised expenditure.	27-Jul-12
	Total hours							
21	Other financial statement disclosures		Gift Gaya					
21.1	Preparation of the AFS Pulling in the final TB obtained from management on 3 Aug 2012. Mapping of accounts Other case ware disclosures and support		N/A	Caseware recourse	N/A - this will be done after the final TB is obtained from management.	N/A	Preparation of the AFS Pulling in the final TB obtained from management on 3 Aug 2012. Mapping of accounts Other case ware disclosures and support	22-Aug-12
21.2	Capital commitments Review the Tender Register, Contracts Register and Grants Register and compile a list of capital commitments: (i) Approved and contracted for (ii) Approved and not yet contracted for	Ex.166	Gift Gaya	Werner	Discussion with management, inspect the AFS and management letter to determine if and how this was accounted for.	Capital commitments were accounted for in the 2010/11 AFS, but according to the 2010/11 management letter the disclosure by Mafube were incorrect	Compile a schedule of capital commitments as at 30 June 2010 and 2011 by reviewing the tender documents, contracts register and grants register and compile a list of capital commitments which are: (i) Approved and contracted for (ii) Approved and not yet contracted for	22-Jun-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
21.3	Fruitless and wasteful and irregular expenditure	Ex.121, Ex.187, Ex.188, Ex.200.	December Ntombele	All	Discussions with management	Management indicated that there is a register of fruitless and wasteful expenditure. They are currently in the process of updating the register. Management also indicated that these expenditure were not previously inspected/ condoned.	Ensure that prior year identified fruitless, wasteful and irregular expenditure in the management letter is included in the register. Refer to the different Ex numbers for detail. Bring it under management attention that these expenditure should be investigated and condoned by the board where applicable. Each team member should identify fruitless and wasteful expenditure on their sections and ensure that it is captured on the register. When the AFS is compiled this figure should be properly disclosed on the AFS.	03-Aug-12
21.4	Related parties (i) Discuss the requirements of IPSAS 20 on related party transactions with management (ii) Review details of related party transactions per the list prepared by management for this purpose.	Ex.205	December Ntombele	Mmuso	Inspected the 10/11 AFS, and the audit file to determine if a list relating to related party transactions were prepared by management.	Through inspection of the AFS, we identified that no related party balances or transactions were disclosed. Management also indicated that VKB may be a related party. The municipality has shares and a trading account of the party.	Provide guidance to management on how to identify related party transactions. Discuss the requirements of IPSAS 20 on related party transactions with management Together with management compile a list of related party transactions / balances. Inspect the number of and significance of the transactions with VKB, confirm the nature of the relationship and include this in the list above, if necessary.	11-May-12
21.5	Perform the annual CIPRO search for entities owned by council members and other Key Management and place documents in audit file.		December Ntombele	Mmuso	Inspected the AFS and audit file to identify if the CIPRO report for all entities owned by counsel members and key management personnel at 30 June 2011 was obtained.	CIPRO reports still need to be obtained. The AG performed a individual CIPRO search, refer to Ex.205	Obtain a list of counsellors & top management. Obtain a CIPRO report for all entities owned by counsel members and key management personnel at 30 June 2012. Compare this to the CIPRO search done by the AG, refer to Ex.205. Ensure that this is properly disclosed in the AFS.	06-Jul-12
21.6	Annual declarations Obtain a copy of the annual declarations for key management personnel and place on audit file.		December Ntombele	Mmuso	Inspected the prior year audit file to identify if the annual declarations for key management personnel for the financial period ending 30 June 2010 was obtained.	Management confirmed that there are a register of declaration of interest in the Propac file. We have requested a copy, but have not received this during the assessment phase.	Obtain the annual declarations for key management personnel for the financial periods ending 30 June 2011 and 2012.	06-Jul-12
21.7	Annual financial statements high level review	Ex.59	N/A	Caseware recourse	N/A - this will be done on finalisation of the AFS	N/A	Inspect Ex 59 and ensure that the same mistakes as indicated in the high level review of the prior year do not reoccur in the current year by making adjustments were applicable	17-Aug-12



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Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
21.8	Opening balances: Check that current year opening balances correspond to prior period closing balances. This will include all figures including disclosure notes.	Ex.50 Ex.52 Ex.229	Gift Gaya / BCX consultants	Caseware recourse	Discussions with management	Management indicated that up to date of the assessment phase opening balances has not yet been transferred to even us in the current year. They still need to consult with BCX to help them in this regard.	Consult with management if the opening balances are correctly transferred to the current year even us system. Also refer to above accumulated surplus section for more detail. Check that current year 11/12 opening balances correspond to prior period closing balances as per the prior year annual financial statements after taking the following into account: - The journals that still need to be processed on the system as indicated above. - Any prior year adjustments identified subsequently Perform a reconciliation between the prior year AFS and current year opening balances. The reconciling items should be disclosed in the prior period error note and supporting documentation should be in place for all these adjustments to provide to the auditors Escalate challenges encountered to management to take corrective action.	21-Aug-12
21.9	Check that all Annexures to the AFS agree with the notes (balance sheet & income statement) to the AFS.		N/A	Caseware recourse	N/A - this will be done on finalisation of the AFS	N/A	Check that all Annexure's to the AFS agree with the notes (balance sheet & income statement) to the AFS.	21-Aug-12
21.10	AFS - Cast & cross cast Cast & cross-cast entire set of AFS (including notes & Annexure's).		N/A	Caseware recourse	N/A - this will be done on finalisation of the AFS	N/A	Cast & cross-cast entire set of AFS (including notes & Annexure's).	21-Aug-12
21.11	AFS - Transfer Check transfers between amounts on the face of the Statement of Financial Position (balance sheet), Statement of Financial Performance (income statement), statement of changes in net assets and cash flow statement to the relevant notes to the AFS.		N/A	Caseware recourse	N/A - this will be done on finalisation of the AFS	N/A	Check transfers between amounts on the face of the Statement of Financial Position (balance sheet), Statement of Financial Performance (income statement), statement of changes in net assets and cash flow statement to the relevant notes to the AFS.	21-Aug-12
21.12	Cash flow statement		N/A	Caseware recourse	N/A - this will be done on finalisation of the AFS	N/A	Recalculate the cash flow statement after the AFS is finalised	22-Aug-12
21.13	Annual financial statements submission and AFS support file	Ex.69 Ex.8 Ex.169		All	N/A - this will be done on finalisation of the AFS	N/A	Ensure that the AFS is submitted on time. Provide a complete audit file with all supporting documentation to the AFS, to the auditors. Ensure that file is properly referenced. Inspect Ex.69 for all support that should be on the AFS support file, where applicable Where adjustments are made after the submission on August due to audit findings, a reconciliation should be prepared to reconcile the August submitted AFS to the resubmitted AFS for audit purposes. Note that only adjustments that are identified by the AG should be made at this stage and if additional adjustments are made, this should be communicated to the AG together with the supporting documentation thereof	22-Aug-12



Mafube Local Municipality: Compilation of 2011/12 Annual Financial Statements and resolution of audit queries

Item no.	Activity	Management letter Exception Number	Responsible Mafube team member	Responsible KPMG team member	Work performed: Assessment phase	Findings/ Issues encountered	Proposed solution	Target date: Execution of work
Total hours allocated								
	Grand total							